

The Canadian Chartered Accountant

OFFICIAL ORGAN OF
THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

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AUSTIN H. CARR, Editor,
10 Adelaide Street East, Toronto

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(The opinions expressed in articles in The Canadian Chartered Accountant are the opinions of the writers of the articles and are not necessarily endorsed by the Association.)

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

ANNUAL MEETING

The Thirty-seventh Annual Meeting of The Dominion Association of Chartered Accountants will be held in the Bessborough Hotel, Saskatoon, Saskatchewan, on Wednesday and Thursday, August 23rd and 24th, 1939, for the reception of reports, presentation of technical papers, election of officers, amendment of by-laws and for such other business as may be brought before the meeting.

The meetings of the Council will be held in the afternoon of Monday, August 21st and during Tuesday, August 22nd, and again at the close of the last general session of the Annual Meeting.

The resolutions respecting the amendment of the by-laws of the Association are published at page 48 of this month's issue.

W. E. Hodge,
President.

Moose Jaw, Saskatchewan,
7th June 1939.

**THE DOMINION ASSOCIATION OF CHARTERED
ACCOUNTANTS**

TENTATIVE PROGRAMME

**of the 1939 Annual Meeting of the Association
to be held in Saskatoon**

Monday, August 21st

- 9.30 a.m. Meeting of Executive Committee
2.30 p.m. Meeting of Council

Tuesday, August 22nd

- 9.30 a.m. Meeting of Council (continued)
1.00 p.m. President's luncheon to Council Members
2.30 p.m. Meeting of Council (continued)
8.00 p.m. Committees of Council
8.00 p.m. Registration
9.00 p.m. Informal reception to visiting members and ladies at
the Bessborough Hotel

Wednesday, August 23rd

- 8.30 a.m. Registration
9.30 a.m. First general session
Addresses of welcome
Address of President
Reports of Constituent Institutes
Reports of Council and of Committees
General discussion
12.00 noon Adjournment
2.30 p.m. Golf Match—Dominion vs. Saskatchewan Institute for
Challenge Cup
2.30 p.m. Entertainment for ladies and for members not playing
golf
9.00 p.m. Supper dance as guests of the Institute of Chartered
Accountants of Saskatchewan

Thursday, August 24th

- 9.30 a.m. Second general session—general business
11.00 a.m. Paper by George R. Freeman, F.C.A., official representa-
tive of the Institute of Chartered Accountants
in England and Wales
1.00 p.m. Luncheon for members and ladies as guests of the
Institute of Chartered Accountants of Saskatchewan
Address by member of the American Institute of Ac-
countants
2.30 p.m. Third general session
Roundtable discussion of the subject
"Inventory valuation of public manufacturing com-
panies"
7.30 p.m. Annual banquet of The Dominion Association of
Chartered Accountants
Address

A special programme of entertainment for the ladies during the
entire convention will be under the direction of a Ladies' Entertain-
ment Committee.

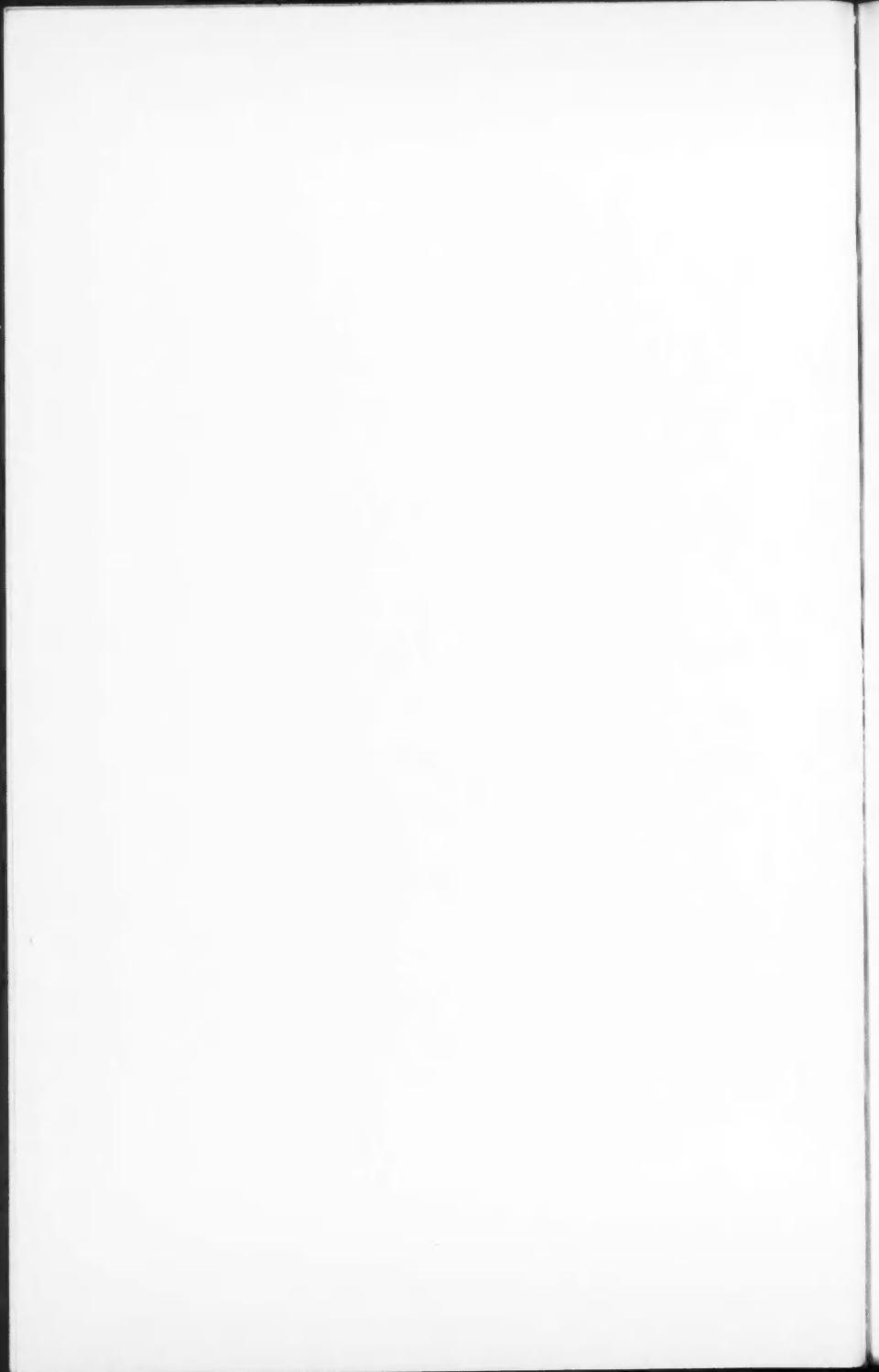
The Dominion Association of Chartered Accountants

President



WILLIAM E. HODGE, F.C.A.,
Moose Jaw, Saskatchewan

As President of The Dominion Association of Chartered Accountants, Mr. Hodge will preside at the Sessions of the Annual Meeting to be held in Saskatoon on 21st to 24th August 1939.



Editorial Comment

(Contributed)

*Commercial Air
Transportation
in Canada*

Commercial air transportation in Canada has hitherto received its main impetus from the mining industry of the north where it is tending to supplant the canoe in summer and the dog team in winter and will probably be the cheapest and best method of transportation during the life of a large number of the mines. In Ontario and Quebec the distances from the railroad to the mines are not great but in the western provinces and the North West Territories some of the distances are hundreds of miles. The air line distance from the Northern Alberta railway, for example, to the radium mines on Great Bear Lake is around 700 miles and that from Fort McMurray to Aklavik at the north of the Mackenzie river is over 1,400 miles. The freight carried by commercial airlines in Canada (consisting chiefly of machinery and supplies for the mines) has risen steadily from 2,372,467 lbs. in 1931 to 26,279,156 lbs. in 1937, figures which may be compared with the 6,000,000 lbs. of freight carried in 1937 by civil aircraft in the United States. Indeed until 1937, the last year for which figures are available, more freight was carried by civil aircraft in Canada than in any other country in the world. For that year the Union of Soviet Socialist Republics reported that 70,000,000 lbs. of freight were transported but it is possible that this includes some military equipment.

The extension of commercial flying to purposes of general, as compared with mining, transportation of goods and passengers is likely to be greatly stimulated by the inauguration of the trans-Canada official air mail service in March last, the Pan-American southern Atlantic service in May and the northern Atlantic airmail service between Newfoundland and Ireland a week ago. Many, perhaps most, people still regard the aeroplane as an extremely hazardous form of conveyance; nothing will do more to remove this superstition than the continuous routine despatch and safe receipt by airmail of both commercial and private correspondence. The actual figures of accident averages in Canadian commercial aircraft operations in 1937 were roughly one passenger killed per 6,000,000 passenger miles flown and one passenger injured per 4,000,000 passenger miles flown. The corresponding figures for 1936 were about 2,000,000

and 1,200,000 passenger miles. If present trends continue both in the air and on the roads Canadians in self-preservation will soon be trading their cars for aeroplanes.

Consumption Taxes

The long list of taxes bearing directly on consumption and including sales taxes, excise taxes, customs duties and commodity taxes is continually being lengthened both in this country and the United States by the action of central and local legislative authorities until today it is a matter of serious concern to all thinking persons. Practically all such taxes offend the canon of economy in taxation not because the direct costs of their collection are high but because the official figures of these costs do not and cannot include the indirect loss resulting from the restraints imposed upon trade. In the aggregate the consumption taxes operative in Canada today are probably responsible for a substantial contraction in the national income by reason of their retarding effect upon the velocity of circulation of money. By interfering with the free flow of consumer goods such taxes cut down production and hinder recovery or expansion of the capital goods industries.

No one would suggest that Canada could dispense altogether with consumption taxes (even if these were purely revenue taxes which some of them, e.g. the federal customs duties, are not), but it can be demonstrated that the interests of the community would be served if the existing tax structure were modified in such a way as to make it less repressive of consumption. At least an effort should be made to prevent the spread of provincial and city taxes on consumption and to point the error of relieving municipal real estate of its tax burden by imposing sales taxes—a process which appears to be capturing the imagination of many people but one which merely shifts the burden of the loss without reducing it.

Holidays with Pay

Statistics are apparently lacking in Canada as to the extent to which the employees of Canadian industry receive holidays with pay, assured either by private agreements or by collective agreements between employers and trade unions. It is probable that the progress of the idea has been considerable during the last few years although perhaps not quite

so marked as in Great Britain. There, in 1937, between 1,500,000 and 1,750,000 wage-earners had holidays with pay assured by collective agreements; today the number has increased to something like 4,000,000. An equal number (mostly clerical workers) get holidays with pay by private arrangement. Even so the combined figures account for only half the employees of the country and there is a great deal of leeway to make up.

Many countries—but neither Canada nor Great Britain—have introduced measures making holidays with pay compulsory by law. The better method appears to be to let the economic self-interest of the employer bring about the desired result even though this be, at least in the eyes of the authoritarians, a slow process.

Rather more than three years ago the Congress of the United States passed the Social Security Act to provide for old-age pensions, unemployment compensation, public assistance to dependent children and the needy aged, and for aid to the blind. The first two heads, viz. pensions and unemployment compensation, were designed to be self-supporting and to place only an administrative burden on the Treasury which would accumulate for pensions alone a fund whose peak would be reached at forty seven billion dollars. Now, with three years' experience behind it, the Social Security Board which was created to administer the Act has made far-reaching proposals for the amendment of the original legislation including abandonment of any pretence of an actuarial foundation for the pension scheme and frank acceptance of what is virtually a current cash basis in its place.

The original act provided that pension payments should begin in 1942, that to qualify for benefit an applicant must have received at least \$2,000 in wages since 31st December 1936 and before reaching the age of 65, and that contributions should be obtained from payroll taxes at the rate of 1% each on employers and employees for 1937-39, 1½% for 1940-42, 2% for 1943-45, 2½% for 1946-48 and 3% for 1949 and the following years. Even on this basis the actuarial soundness of the scheme is questionable since the shift of workers from uninsured to insured occupations has been more extensive than was expected and it is now indi-

cated that the proportion of old people in the later years will be greater than was anticipated in the calculations.

The proposals for the "liberalization" of the old-age pension scheme are obviously designed to compete with the radical schemes of such visionaries as Dr. Townsend. Pension payments are to begin two years ahead of schedule—in 1940 instead of 1942—while monthly benefits payable in the early years are to be increased and their amount related to presumptive need rather than strictly to contributions. It is estimated that if the payroll taxes were maintained at their present level the cash receipts would suffice to cover cash payments under the new scheme until 1955. Then deficits to be met by the Treasury would begin—and continue to increase in amount until they reached such staggering figures that the whole scheme must collapse. But it is even doubtful whether present tax schedules will be maintained, for Congress appears to be sympathetic towards a suggestion originating with the Treasury that the increase in the tax rate from 1% to 1½% should be postponed to 1942 instead of being operative in 1940. If this reduction were made in contributions the scheme would break even on a cash basis up to 1950 but in 1955 the cash deficit would be nearly four hundred million dollars—and of course much greater each succeeding year thereafter.

The proposals with regard to the remaining heads of social security are colourless by comparison. More trades are to be included in the unemployment insurance scheme and contributors are to be restricted to workers whose income does not exceed \$3,000; federal grants-in-aid for assistance of children, the needy aged and the blind are to be increased.

The abandonment of the actuarial principle in the old-age pension scheme and the commitment of the Treasury to a tax burden fifteen years hence which the nation may be neither willing nor able to shoulder is an inevitable result of any attempt to compete with such fantastic pension proposals as Dr. Townsend's.

ACCOUNTING PROCEDURE FOR GOLD DREDGING OPERATIONS

ACCOUNTING PROCEDURE FOR GOLD DREDGING OPERATIONS

By Charles W. Clark, Chartered Accountant,
Vancouver, British Columbia

DREDGING for gold by the use of power-driven bucket line dredges has been a recognized method of gold mining for many years. In recent years, however, properties with large lower grade gravel reserves, which were not previously considered to have any economic possibilities, can now be worked at a profit. This is due to the increase in the value of the precious metal, many improvements in dredge design and the development of various types of gold saving equipment.

It is not the intention of this article to deal with the geological or engineering problems of placer mining, save for the purpose of associating the engineering and accounting departments which, for a successful operation, must work closely together. For this purpose a brief description of the initial investigations of a property should suffice.

Preliminary Survey and Exploration

Upon the company becoming interested in any particular property, a field engineer is sent out to make an examination and prepare a preliminary report. Camp having been established, a general reconnaissance of the whole area is made, during which gravel along the streams is panned to obtain indications of the presence of gold. Physical features are noted, such as length and width of the area, character of the bedrock, as seen from the outcrops on the hills adjoining the flats, and from outcrops of bedrock in the floor of the valley. Gradient of the valley and supply of water are considered. In addition, accessibility and climatic conditions are observed and noted.

If this preliminary report is favourable, an option is taken on the property and exploratory work commenced. Shafts are sunk at selected points to obtain large representative samples, in order that the gold content, depth of gravel and the character of the bedrock may be more accurately estimated. These findings are then considered and, if satisfactory, lines are run and extensive drilling is done. The number of shafts sunk will depend on the area of the property and the terms of the option. With the information

thus provided, the total gravel reserves and values are calculated and the advisability of exercising the option is considered.

Assuming the property is acquired, the whole area is surveyed and plotted, further drill lines being run for the purpose of laying out dredge courses. The values, class and depth of gravel and the nature of the bedrock in each hole are carefully recorded. The type, size and digging depth of the dredge most suitable is then determined, and specifications worked out by the engineers and draftsmen.

Estimates of the amount of capital necessary to bring the property into production are then prepared. Quotations and tenders are obtained to assist in this work. Camp construction costs, power provision costs—either by Diesel or hydro-electric means—are calculated and, in addition, every possible avenue of expenditure is considered and provided for in the estimates. The required capital having been provided, a definite programme of work is laid down in keeping with the estimates from which any variations, later contemplated, must receive the approval of the management.

Accounting for Construction Costs

At this point a Field Accounting Staff proceeds to the framing of a system of accounts for the recording of the various phases of the construction period. In this work close co-operation between the accounting, engineering and construction departments is vital in order that the costs of each job may be clearly recorded and the costs made readily available to the person in charge of each job, otherwise it is possible for costs far to exceed estimates before an alarm is sounded and steps taken to determine the cause.

In actual practice it has been found that the job order system, daily time cards, and the passing of all materials through stores form a satisfactory and adequate main line to handle the record of traffic to each branch job, whether it be a camp building or the erection of the dredge.

Before a work order is issued, the party in charge of the job prepares a work order application briefly describing the work to be undertaken and records, in spaces provided, his estimate of material required and labour costs. This is compared with the original estimate and, when found to coincide reasonably as to specifications and cost, the engineer approves the application. A work order then is

ACCOUNTING PROCEDURE FOR GOLD DREDGING OPERATIONS

issued and numbered copies go to the paymaster, the store keeper, the foreman in charge and the engineering department. All material requisitions, daily time cards, store issue slips and direct cash charges bear the work order number. By daily entry of these, the progressive cost of each job can be ascertained. As each job is completed and the material and labour costs ascertained, the total direct cost is entered on the work order application. Unless there should be cause to report immediately to the engineer in charge, these are entered on a completed works report, showing the estimated and the actual cost. The detail work can be minimized by the use of printed forms and columnar stationery. Thus by appropriate explanation of the system at the outset, and with the co-operation of the foreman, engineers and warehousemen, there is no reason why there should be any confusion or delay in arriving at the cost of work in progress. The importance of this information to the management and those in charge of the job cannot be too strongly emphasized.

On completion of the construction programme, the ensuing lull should be used to record materials returned to stores, the grouping of sub-construction accounts under their respective control accounts, the distribution of indirect costs to capital account, and setting up the operating accounts. With this work completed, the actual costs of installation should be compared with the estimates and a tabulation prepared for the engineer in charge. This will assist him in making his final report covering construction.

During this period the dredge will have dug its way from the construction site to the dredging area. The cost of this movement will be treated as a deferred charge to operations or will form part of the delivered cost of the dredge, according to policy.

System to Record Operating Costs

With the commencement of actual dredging, all costs must be borne by the operation. These are grouped under three main headings, namely: direct operating, such as dredge labour, supplies and power; indirect operating, such as surface clearing, camp operating, etc.; and non-operating, which includes all items of cost not directly associated with the dredge operations, such as administration, secretarial and similar expenses.

Each of the various subsidiary services, such as blacksmith shop, machine shop and power production, should be operated as separate units. That is, each is charged directly with material, labour, supplies and power consumed and, in turn, credited with the charge-out of the finished work at cost. Such charges constitute a direct dredge operating cost or a charge to the service for which the work is performed. The result of this is that all work completed during the month by such service unit will have formed part of the recorded operating cost. Any month-end balances in the accounts of the service units will be represented by unfinished work or supplies on hand.

The indirect expenses cover camp maintenance, hospital operating and, in fact, practically all the functions of a small community or town. This necessitates the installation of a comprehensive distribution on sub-accounts under the one control. Columnar ledgers can be used conveniently to record this phase of the operations.

The costs of proving the property, drilling, testing, land clearing, etc. are best treated as deferred charges, reduced to a yardage basis and charged to the dredge operation as the ground is worked.

In order that operating costs may be fully provided monthly, semi-monthly, or for a shorter period if required, systematic provision for heavy replacements should be made currently. A convenient method to furnish the necessary information is a wear and tear register in which the installed costs of the heavy wearing parts of the dredge, such as buckets, bucket lips and pins, tumblers, shafts, etc. are entered. The useful life of the respective parts is estimated by the engineer or dredgemaster and these costs are thus distributed to operations on a daily, weekly or monthly basis as desired. The total of each column provides the current charge to operations and a credit to a reserve account, against which the ultimate replacement cost is charged. In addition to providing figures to spread these costs fairly, such a register makes available a ready record of these parts and furnishes valuable statistical information.

The almost magnetic attraction which the precious yellow metal has for human fingers, as it accumulates on the dredge, is counteracted by steel screens surrounding vulnerable points and, at clean-up time, only capable and trustworthy employees are engaged in the work. The clean-

ACCOUNTING PROCEDURE FOR GOLD DREDGING OPERATIONS

up usually is made by the chief metallurgist, with two assistants, the engineer in charge supervising. The wet amalgam is collected and the gross troy weight taken and recorded. This record indicates the various parts of the dredge from which it is obtained, such as port or starboard tables, jigs, saveall, etc. Free mercury is then drained and weighed. By retorting, the balance of the mercury is extracted and weighed, as is the resultant gold sponge. The sponge is melted and cast into bars and again weighed. At this point the bar number is stamped into the bar, the laboratory report prepared and certified by those taking part in the clean-up, and the bar is placed in the strong box awaiting shipment.

The laboratory report, in addition to providing a complete record of the clean-up, includes percentages of foreign matter and of loss in retorting. Thus any undue loss can be noticed and the circumstances immediately investigated. In due course the bar is handed to the carrier for delivery to the mint, which later issues a certified record of the bullion from the time of the receipt of the bar until its realization.

From the accountant's point of view, this history presents all the information necessary and, in reason, expected. The normal loss percentage of wet amalgam, when a bar is finally cast, can be determined only by experience but by comparing results on the first few clean-ups a reasonably acceptable figure can be arrived at for future guidance. The bullion weight shown by the report should compare closely with the receiving weight at the smelter or mint. The fineness recorded by the company's assayer should agree with that of the mint and the accuracy of determination values can then be confirmed.

Operating Reports and Statements

The dredge operating report is designed to record working data for the period covered by each clean-up. This shows possible working time, actual hours worked, an accounting for lost time, yardage dredged, digging depth and recoveries. The engineering staff tabulates these figures for comparison with the drilling records and value estimates, thus proving the accuracy of the values determined by the drilling and testing ahead of dredging.

At the close of each month an operating statement is prepared showing the results for the period. This state-

ment contains production, yardage and value costs grouped into direct, indirect and non-operating, and both total and per yard figures are given. Such data are given for both monthly and cumulative amounts. Copies of this statement are handed to the engineer in charge and the general manager. Copies are also forwarded to the head office, as is each clean-up report. The officials of the company thus are kept fairly well informed as the dredging operations progress.

There are numerous features peculiar to dredging operations which might be described with interest to the reader but, as the purpose of this article is to outline briefly accounting procedure and methods, the writer has presented only the basic aspects of this particular method of winning gold from Mother Nature's storehouse.

FINANCIAL ADMINISTRATION AND A SYSTEM OF ACCOUNTING FOR MUNICIPALITIES

Editor's Note: The following report on the Financial Administration and a System of Accounting for Municipalities in the Province of New Brunswick was prepared by The New Brunswick Institute of Chartered Accountants at the request of the Department of Education, Federal and Municipal Relations, of that Province. Part I of the report, with a foreword by the Minister of the Department concerned, is published in this month's issue and Part II will appear next month.

Foreword

Following a survey of municipal administration by my department in the early months after its inauguration, it became apparent that many complex problems must be solved before the accumulated defects of generations could be removed and municipalities brought into line with modern requirements and conditions.

Rather than accept the conclusions reached within the department it was decided to follow the policy which has become quite general with the government, to consult expert opinion outside the government service.

With that thought in mind and on the advice of officials of my department, the voluntary co-operation of The New Brunswick Institute of Chartered Accountants was sought to prepare a report on (1) the financial administration of municipalities and (2) a standardized system of accounting for municipalities.

MUNICIPAL ADMINISTRATION AND ACCOUNTING

The report of that organization is published herewith in two sections and I commend it to the thoughtful study of all interested in sound municipal administration.

In its deliberations, the Institute was given the benefit of the information assembled in my department, the problems facing the department and also the difficulties presented to the department by various municipal corporations whose co-operation has been of very material assistance.

I may say that in some particulars the recommendations made in the report have already become part of departmental policy. Among other things definite action has been taken to promote adequate sinking funds and to supervise investments in sinking fund accounts. In the case of county units, actuarial tables have been sent to each municipality setting forth sinking fund requirements on each individual debenture issue on a four per cent. basis, and as quickly as possible similar tables will be sent to other municipal corporations.

Obviously the occasion is not opportune to discuss further what my department has done and is doing to improve municipal administration. To do so might prove confusing to the reader of the attached report.

I desire, however, to express my sincere thanks and appreciation to the members of The New Brunswick Institute of Chartered Accountants for the gratuitous contribution of their time, skill and knowledge and to commend them for their practical co-operation in the public interest.

THE REPORT—PART 1

(Made by the Institute to Hon. A. P. Paterson, Minister of Education, Federal and Municipal Relations, Fredericton)

At a meeting between the Council of The New Brunswick Institute of Chartered Accountants and officials of your Department held at Saint John, N.B., on 6th March 1937, the Council undertook to study the financial administration and accounting methods of municipalities and submit a report and recommendations thereon.

Since that date the members of the Council have given a great deal of thought to these questions and a number of meetings have been held.

It is of course a truism that the municipalities are the people, but it is evident that the citizens as a whole pay

too little attention to the problems and, particularly, the financial aspects of government. The citizens should be taken into the full confidence of the various municipal bodies and be given full information about the condition of affairs and the activities of their representatives. We feel that the Department can do a great deal along this line through publication of information, comparative statistics and propaganda. A real interest taken by the average citizen in the affairs of his community would help greatly to solve its problems.

The problems involved are so many and so varied that it seemed advisable to limit our inquiry and recommendation to the broad outline of the organization which, in our opinion, is best adapted for the proper financial administration and control of municipalities in New Brunswick.

In the discussion with the officials of your Department it was clearly understood that our study and suggestions should not be hampered by the present law. The recommendations made in this report, if accepted, will involve considerable changes in the law governing municipalities.

For ease of reference and study this report has been arranged under the following main divisions:

1. Definitions
2. Budget and Assessment Warrant
3. Cash Budget
4. Valuation and Assessment
5. Sinking Funds and Trust Funds
6. Audit of Accounts
7. Collections
8. Miscellaneous
9. Acts Governing Municipalities

A report on an Accounting System for Municipalities will be submitted at a later date.

Definitions

In this report the term "Municipality" means a county, city, town or incorporated village; "Local Board" means any school board, and any board, commission or local authority exercising powers with respect to the affairs of any district; and "Department" means the Department of Education, Federal and Municipal Relations.

Budget and Assessment Warrant

The present system for setting the assessment warrant by counties, cities and towns is, in our opinion, satisfactory and should be continued subject to the supervision and control of the Department, and the recommendations made below:

RECOMMENDATIONS

1. *Assessment Warrant based on Revenue and Expenditure*—That the assessment warrant be based on an estimate of revenue and expenditure, including cost of collection, cash discounts, etc., rather than cash receipts and disbursements. This basis conforms to the revenue and expenditure method of accounting, recommendations with regard to which will be submitted at a later date. The principal difficulty which arises in preparing an estimate on the revenue and expenditure basis is the provision of an adequate reserve for non-collection of assessments. In the great majority of cases the amount added to the warrant by the assessors in preparing the assessment roll should be adequate to provide for loss from this source. (See also Section 3(c) below.)

2. *Submission of Warrant to the Department*—That, to enable the Department to keep in close touch with the financial administration of municipalities and local boards, a copy of the assessment warrant of municipalities and local boards for the current year be submitted to it, supported by the detailed estimates of the various departments, parishes, services, etc.

3. *Amendment of Assessment Warrant*—That before any assessment warrant have the force of law, the Department must confirm it. The Department should have the right to add to the assessment warrant:

(a) The additional amount required to service the funded debt of the municipality or local board over and above the amount included in the warrant as submitted;

(b) Such additional amount as, in the opinion of the Department, will be required for poor relief, hospitalization and social services;

(c) Such additional amounts as may be required to provide during one or more years for an accumulated deficit at the end of the previous fiscal year or to cover an estimated deficit for the current year or to make adequate provision for non-collection of taxes.

The Department, should have the right to disallow or reduce the appropriation for services which, in its opinion, are unnecessary or in excess of the municipality's ability to finance.

In estimating the financial ability of municipalities or local boards the Department should consider, among other things, the relationship of debt to taxable valuation and of outstanding taxes to total assessment, and the current surplus position.

4. *Basis of Assessment*—That the assessment warrant, as confirmed by the Department, with or without amendment, should be the authority for the assessor or assessors concerned to prepare the assessment roll as outlined in the section of this report which deals with valuation and Assessment.

5. *Budget of Certain Local Boards*—That the local boards which do not make any assessment, their expenditures being covered by revenue derived from charges for services, etc., be required to pass a budget showing estimated revenue and expenditure, and submit it to the Department for confirmation. The Department should have authority to amend such budgets similar to their authority over the assessment warrant. (See section 3 above.)

Cash Budget

To enable municipalities and local boards to make plans for the receipt and payment of funds during the course of the year, a cash budget should be prepared along the following lines:

1. Estimate of disbursements showing by months the total for each department or service, and the grand total. On this estimate the total for the year to date should be shown after each month.

2. Estimate of receipts by months, in the same way. The differences between the estimated receipts and disbursements would show the estimated amount which it would be necessary to borrow or the estimated amount available for the repayment of previous borrowings on current account.

The actual results should be compared each month with the estimates and the reason for any difference checked into.

A copy of the Cash Budget and a statement of cash receipts and disbursements should be forwarded monthly to the Department.

The institution of the Cash Budget might be deferred until such time as the other recommendations have been implemented.

Valuation and Assessment

PRESENT SYSTEM

The three cities in the Province are operating under special assessment acts, and, at this stage, we do not suggest any change in this arrangement except that the Provincial Valuator (see below) should have authority to examine the records relating to valuations to determine that the regulations made respecting the basis and method of valuation and so on are being complied with and to fix the valuation of the city for the purpose of determining the inter-unit rate, which is used for distributing the county contingencies among the units within the county.

The Towns Incorporation Act provides for the election of three assessors who shall prepare a valuation roll. We suggest no change in this method at this stage except that the chief assessor for the county in which the town is situated should have the same authority over the town assessors as the Provincial Valuator should have over the city assessment departments. At a later date consideration could be given to delegating to the Chief County Assessor the responsibility of preparing the valuation rolls for the towns situated within the county, with the assistance of local assessors elected or appointed by the town.

The Rates and Taxes Act provides that the County Council shall elect three valuers who shall hold office for three years and that, at intervals not exceeding ten years, a complete valuation shall be made of all real and personal property and income in the county, exclusive of property and income situated in cities and towns within the county. This valuation is used as the basis for distributing the county contingencies between the various units in the county, but is not used as a basis for assessing the individual taxpayers.

Each parish and village and a number of local boards prepare valuation and assessment rolls. In some instances two or more rolls covering substantially the same taxpayers are prepared by different assessing bodies.

WEAKNESS OF PRESENT SYSTEM

The weaknesses mentioned in this section apply more particularly to counties, villages and local boards.

A large amount of taxable property and income is not entered on the valuation roll, due to the employment of part time, poorly paid assessors who cannot be expected to make an adequate investigation into the personal property and income of ratepayers.

Lack of uniformity in valuation for tax purposes, due to the valuation being made by small districts and by different assessors in each district.

Duplication of work: the county valuers establish a valuation to serve as the basis for apportioning the county contingencies only; the assessors of parishes, villages and certain local boards prepare valuation rolls independently, which overlap in a number of cases.

There is no adequate system to ensure that the assessors secure information of changes of ownership of property, new buildings, fires, etc., which would affect the valuation of property in their district.

RECOMMENDATIONS

The provision of an adequate system for valuing property and income is, in our opinion, the greatest present need in the field of municipal management within the Province. Upon a complete and equitable valuation largely depends the equity of the tax assessments between taxpayers in the same district and the apportionment of expenditures between districts. A uniform valuation throughout the Province would give valuable statistical information.

To achieve these ends and to overcome the weaknesses in the present system, we recommend that the following system be adopted for preparing the valuation and assessment rolls for counties, villages and local boards.

1. *Chief Assessor*—That one chief assessor be appointed by the County Council with an office in the County seat and at least one assistant. He should have direct supervision over valuation throughout the county, cities excepted, and it would be his duty to prepare a valuation roll for each parish, village and local board within the county, showing thereon the valuation of property and income and the taxes assessed.

The parish rolls would be turned over to the County Secretary-Treasurer who would be responsible for the preparation of the bills. These bills would be turned over to the parish tax collector who would sign and deliver them. The tax collectors should be under the administrative control of the Secretary-Treasurer, who has, under the present act, authority to dismiss any collector who does not carry out his duties satisfactorily.

At a later date consideration should be given to the mailing of tax bills direct to taxpayers, allowing a small discount for payment in full prior to their due date and reducing the number of collectors.

The rolls for villages and local boards would be delivered to the Secretary-Treasurers thereof, who would prepare the bills and be responsible for the collection of the taxes.

The chief assessor and his assistant should be full time employees and they should prepare and keep up to date a master roll of all property in the county, arranged geographically. In this master roll should be recorded all transfers of property, new buildings, buildings destroyed, etc., and for this purpose a close check should be kept on the records in the Registrar of Deeds' office, and on building permits issued, etc.

To assist the chief assessor, we suggest the appointment of two assistant assessors for each parish and incorporated village, who would be in a position to supply valuable local information. In the preparation of the valuation roll, however, the decision of the chief assessor should be final, subject to the right of appeal mentioned later in this report.

The chief assessor should be appointed by the County Council subject to the approval of the Department. If the County Council fail to appoint a chief assessor acceptable to the Department, the latter should be empowered to make the appointment.

2. *Provincial Valuator*—That a Provincial Valuator be appointed by the Governor-in-Council. This officer should be a man trained in valuation and assessment work. He should have general supervision of the city, town and county assessors and should assist and train them in their work. He should act also as auditor of city and county valuation rolls in order to satisfy himself that the basis of valuation throughout the Province is uniform.

3. *Appeals from Valuations*—That any person assessed have a right of appeal from the valuation of his property and income as entered on the valuation roll to the board of assessors composed of the Chief Assessor of the county and the two parish or village assessors of the district in which he resides, or his property is situated. If the ratepayer or the County Secretary-Treasurer is not satisfied with the award of this board, an appeal should lie to a board of revision constituted along the lines laid down in Section 55A of the Rates and Taxes Act.

4. *Basis of Valuation*—That all valuations be on the same basis in order that the valuation for tax purposes throughout the Province may be uniform. The most equitable basis of valuation for real and personal property and income is a study in itself upon which experts differ and the Institute does not feel that it is justified in recommending a definite basis. The following general suggestions may be of service.

In addition to the taxes based on valuation, we suggest that one poll tax be levied by municipalities on every male of sound mind between the ages of twenty-one and sixty, at the rate of \$5.00, but that no poll tax be levied on the same person by more than one taxing body.

In connection with the assessment of income, we believe that the Department of Federal and Municipal Relations should have authority to lay down rules as to how income is to be calculated and what deductions are to be allowed.

We believe that it is feasible, in the case of cities, towns and villages, to require ratepayers to file with the City or Chief County Assessor a statement of income and personal property. This return should be on a standard form which could be prepared by the Department in consultation with the Provincial Valuator. Penalties should be provided for the non-filing of these returns and should be enforced.

We do not consider that it is sound policy for a municipality to grant a fixed valuation or tax exemption privileges to any company or person, and believe that this practice should be prohibited altogether, or, at all events, prohibited without the specific sanction of the Department.

5. *Assessment Fees* — A small percentage of the total county warrant should be added thereto and remitted to the Provincial Secretary-Treasurer, to be used exclusively to defray the expenses of the Department in supervising the

financial administration of municipalities and local boards in the Province, including the salary and travelling expenses of the Provincial Valuator.

6. *Inter-Unit Rate*—That the present system of making a valuation of property in the County for the sole purpose of establishing an inter-unit rate for the distribution of County contingencies between the various municipalities within the County be discontinued and that the County contingencies be distributed among the units in the County in proportion to the valuation for tax purposes of the units for the preceding fiscal year.

7. *Property Tax on Automobiles and Trucks*—It is practice in certain of the United States for the State to collect the property tax on automobiles and trucks at the time the license is issued and to remit such tax to the municipality concerned. A certain collection charge is made, sufficient to cover the expense involved.

We believe that serious consideration should be given to adopting the same practice in New Brunswick. To do so would necessitate establishing a uniform property tax rate for automobiles and trucks, but there should be no serious objection to this, either in principle or practice. This procedure would ensure that property taxes on trucks and automobiles using the public roads would be collected in full and this revenue would be received by the municipalities early in the year, when receipts are low.

Sinking Funds and Trust Funds

SINKING FUNDS

Accounting Records—A separate section of the General Ledger should be set aside to record the investments, reserves and receipts and disbursements of the sinking funds. The main accounts in this section would be:

1. Bank
2. An account for each issue held as investment
3. Reserve account for each issue for which sinking funds are being provided
4. Receipts and disbursements on income account.

If the investments are numerous the detailed accounts for each issue could be kept in a subsidiary ledger, controlled by one account in the general ledger.

We recommend that the income from investments be recorded as received, but that instalments due from current fund to the sinking fund which remain unpaid at the end of the year be set up as due from the current fund and credited to the reserve account concerned. Discount and premium on investments should be amortized over the life of the investments concerned.

Investment Policy—It is important that the date of maturity of investments in the sinking funds should correspond with the date of maturity of the bonds for which the sinking fund is being accumulated.

We approve the principle of the municipality purchasing its own bonds, provided that not more is purchased of any one issue than there are funds in the sinking fund earmarked for that issue. A municipality's own debentures purchased for its sinking fund should not be cancelled until they mature. Coupons attached to a municipality's own bonds held by it in its sinking fund must be cut promptly on their due dates, and deposited in the sinking fund bank account.

We do not approve of the municipality purchasing for its sinking fund its own bonds at the time of issue. The adoption of this policy is very likely to result in the date of maturity of the bonds in the sinking funds being much later than the date of maturity of the bonds for which the sinking funds should provide.

The Municipal Debentures Act provides that investments of municipalities in their sinking funds must be approved by the Comptroller General. This provision is in the best interests of municipalities and should be strictly enforced.

Valuation of Investments—We recommend that sinking funds investments be shown in the sinking funds at cost, plus amortized discount or less amortized premium, the discount and premium being amortized by the straight line method. On the sinking fund balance sheet, the market value of investments at the date of the statement should be shown as a memorandum.

General—The Department should be ready at all times to help municipalities to prepare tables showing the reserve requirements during the life of an issue. We recommend that these tables be prepared on a basis not exceeding four per cent.

TRUST FUNDS

Many municipalities hold trust funds of various kinds. Care must be exercised that the receipts from trust funds be used only for the purposes specified in the instrument creating the fund, and that the principal of the fund be safeguarded.

As the income from trust funds does not affect the revenue of a municipality or local board we suggest that the accounts of trust funds be kept on a cash basis. The money belonging to each trust fund should be deposited in a special bank account and separate asset and liability and receipt and disbursement accounts should be kept for each fund. We suggest that the accounts dealing with trust funds form a separate section of the General Ledger.

SAFEKEEPING OF SECURITIES

It is essential that these securities be under dual control and deposited either in a safety deposit box of some chartered bank or deposited with some bank or trust company for safekeeping.

The present provision that a municipality or local board may deposit with the Provincial Secretary-Treasurer the Annual Sinking Funds instalments for investment by his Department should be continued, and we suggest that it be compulsory in those cases where the bonds are guaranteed by the Province. We believe that municipalities would find it to their advantage to make greater use of this provision.

Audit of Accounts

It is a well established principle in the accounting of public bodies that the accounts should be audited regularly by a properly qualified independent auditor. Such an audit would assure the Department, the creditors and the general public that the items appearing in the accounts have been properly dealt with and classified and is a valuable check on the administration. We believe that all public bodies within the Province should have an independent audit and we recommend that the acts governing municipalities and local boards provide that the accounts of all counties, cities, towns, villages and local boards be audited by a chartered accountant, or, with the specific approval of the Department, by an accountant in public practice.

The Department should have authority to outline the audit procedure to be followed in the different types of

municipalities and local boards. The procedure would vary according to the size of the body and the internal check provided by their accounting system.

The auditor's report on the balance sheet at the end of the fiscal year and the relative operating statement and surplus account should state whether or not:

1. He has conducted a full audit as laid down by the Department.
2. He has received all the information and explanations required.
3. The reserve for non-collectible taxes and other accounts receivable is, in his opinion, adequate, and if not, what amount he considers is required.
4. In his opinion, the balance sheet and relative operating accounts are properly drawn up so as to show a correct view of the financial position of the municipality or local board and the results from operations for the period ended on the same date.
5. In his opinion, all transactions that have come to his notice have been within the statutory power of the municipality or local board.

We recommend that, for the protection of the auditors of public bodies, the provisions of the Dominion Companies Act as it affects auditors or change of auditors be incorporated substantially in the proposed acts. The auditor in order to properly complete his audit should have authority to examine all books and records of the municipalities and local boards and the books and records of all officers, boards or commissions having financial relations with the body he is auditing.

Collections

The collection of taxes receivable and other accounts due to public bodies is most important. Every effort should be made to secure the active co-operation of all departments and of the members of the council, commission or board. Where several collectors are employed, comparative figures and quotas have proved helpful in practice by introducing a spirit of rivalry and competition between individual collectors or districts.

We believe that the establishment of an equitable basis of valuation and assessment will have a very beneficial effect on the readiness of citizens to pay taxes.

MUNICIPAL ADMINISTRATION AND ACCOUNTING

The authority and rights of the public bodies to enforce collection of taxes and other accounts due them and the rules and regulation governing the procedure necessary should be made uniform and simplified as far as possible.

Miscellaneous

RECORD OF BONDED INDEBTEDNESS

The record of the debentures outstanding of various municipalities and local boards at present kept in the Comptrolling and Audit Branch of the Provincial Secretary-Treasurer's Department should be transferred to the Department of Education, Federal and Municipal Relations. The Department should outline the procedure to be followed for the redemption, cancellation, and cremation of debentures as they mature.

BONDING OF EMPLOYEES

We believe that all employees having to do with the receipt or disbursement of public money should be bonded by a company approved by the Department, and that the present practice of having personal bondsmen be prohibited.

BOND ISSUES AND BANK LOANS

We recommend that the term of bonds issued should not exceed the estimated life of the asset which they are used to acquire and that they be issued in serial form so that the necessity of providing sinking funds and looking after the investments thereof will be eliminated.

Before request is made to the Legislature by any municipality or local board for authority to issue bonds, the approval of the Department should be secured.

Authority to make temporary loans to cover current expenditures prior to receipt of current revenues should only be granted by the Legislature after the application of a municipality for such powers has been approved by the Department. The Department should have authority to require the municipality to provide in its assessment warrant for the reduction of such loans if, in its opinion, such a course is in the best interests of the municipality.

YEAR END

The financial years of all school boards end on 30th June. With very few exceptions the financial years of municipalities and other local boards coincide with the calendar year.

In order to facilitate the preparation of accurate consolidated statements of municipalities and local boards throughout the province we recommend that all such bodies end their year on 31st December.

While this change would involve the preparation of one budget and assessment roll for a broken period, this should not prove very difficult; the management of municipalities and local boards would not be affected in any way.

DATES OF MEETINGS

In order to give adequate time for the careful preparation and thorough audit of the accounts and statements of municipalities and local boards, we recommend that an interval of at least six weeks intervene between the close of the fiscal year and the date of the annual meeting.

Financial statements and returns as required in the acts should be forwarded to the Department not later than two weeks after the annual meeting of the municipality or local board. Financial statements and returns for the first six months of every year should be forwarded to the Department not later than six weeks after the end of the period.

Acts Governing Municipalities

The recommendations made in this report, if adopted, require numerous amendments to the act governing various classes of municipalities. It would probably be most satisfactory to pass new acts and repeal the acts at present on the Statute Books. The new acts should cover the following municipalities: counties, cities, towns and villages, school boards and special boards such as water and sewerage boards, electric distribution boards, etc.

The special acts incorporating various cities, towns, villages, etc., should be reviewed for the purpose of bringing all such bodies under the general act, in so far as practicable.

We think that the acts should define a city, town, village, etc., and when a district comes within the provision of the act, steps should at once be taken to incorporate it.

Incorporated in the new acts should be a clear statement of the extent of the authority of the Department of Education, Federal and Municipal Relations. Among these powers we would suggest the following:

1. Legislation affecting the financial condition of the municipalities, and local boards must have the approval of the Department.

MUNICIPAL ADMINISTRATION AND ACCOUNTING

2. The appointment of a secretary-treasurer of a county, or a permanent financial officer of any municipality or local board, or a commissioner of any board or commission, or a member of any school board shall be inoperative until confirmed by the Department.

3. The Department should have authority to lay down the form and the minimum information which must be furnished in the statements of municipalities and local boards.

We suggest that in special cases municipalities may be authorized by the Department to assess in advance for contemplated capital expenditures in order to build up a fund for that purpose and avoid the necessity of issuing debentures for the full cost of the project.

Conclusion

The New Brunswick Institute of Chartered Accountants appreciate the opportunity afforded them of submitting this report and trust that the suggestions contained therein will be helpful to the Department in improving the administration and control of municipalities.

As mentioned earlier in this report we have not attempted to go into too much detail but we shall be pleased to discuss any features of this report which may not be clear.

(Part II of the report will be published in the August issue of THE CANADIAN CHARTERED ACCOUNTANT).

HOW INSURANCE TAXES OPERATE*

A Summary of Systems in Various Countries

By N. M. Sharp, London

TAXATION is very largely an uncontrollable item of expense, but is of great importance as an element in the cost of insurance. How heavy that cost is will be shown. I doubt whether the ingenuity of the tax gatherer, be he British, colonial or foreign, is more highly developed in any direction than in his resourcefulness in extracting money from insurers or insured.

The usual basis of assessment is either to tax earned profits or to charge a percentage of the premium income. Where premiums are assessed, the names given to the particular tax enactment form an imposing and varied array of titles.

They may be disguised as a licence fee, which is quite common; a fire marshal tax as in the United States; a fire prevention tax as in Canada; a turnover tax as in France; a property tax as in Norway; a sales tax as in Chile, or a fiscalization tax as in Brazil—the basis in all these cases is the same.

There are, however, many other means of extortion from insurance companies—to name only a few—policy stamps—a favourite device, taxes on sums insured, as for instance in the Argentine, on reinsurances as in Queensland, on commission as in Spain, on capital as in Portugal, on remittances as in Brazil, or on dividends as in France and her colonies.

A company, therefore, with a world wide organization must meet demands for local taxation wherever it operates abroad before it can begin to arrive at the profit which falls to be assessed by the British tax authorities, who only come into the picture after the many other countries have had their share.

Bear in mind that taxes are levied not only by governments, but by states, provinces and municipalities, and this inevitably involves multiple taxation on the same income. As to this, I shall have more to say later.

*An address delivered 13th March last before the Insurance Institute of London. Due acknowledgment is hereby given to *The Policyholder* of London in which the address was published. Mr. Sharp is assistant secretary of the London and Lancashire Insurance Company.

I have only time to make a very brief reference to the tax position of the principal countries, and a passing reference to the position elsewhere.

The United States

Insurance in the United States is taxed in a variety of ways in all of the 48 States and the District of Columbia. In common with other businesses, it pays Federal income tax—now at 16½ per cent. of profits net of reinsurance, property tax, social security taxes, entrance and incorporation fees, capital stock taxes, and in some cases State income taxes.

But in addition to all these imposts, there are special taxes on insurance alone which are collected by the States. These consist principally of premium taxes, fire marshal taxes, and contributions to fire departments—the two latter taxes being payable in respect of fire premiums only.

The usual premium tax is 2 per cent. on net premiums, but this is not uniform throughout the States. It may be 1½ per cent. on net premiums, as in Delaware, and may be as much as 3 per cent. on gross premiums, as in Idaho. The fire marshal and fire department taxes are not levied by all States, some charging the one and some the other. Other States again charge both. The rates also vary, but with the exception of South Carolina they are less than 1 per cent. of net premiums.

Other forms of special State insurance taxes include expenses for the company examination required by law, fees for filing annual statements, publication fees, and licence fees, the latter being levied also by municipalities and local governments.

The total special taxes peculiar to insurance collected by the United States in 1936 amounted, quite apart from the federal and other general taxes, to about \$98,000,000, of which some \$40,000,000 was paid by non-life companies. Nine-tenths of this sum is collected from the taxes on premiums alone.

Originally, and this is very significant, the various special State insurance taxes were levied in order to cover the cost of some particular phase of State insurance supervision carried on in the interest of policyholders. Taking the United States as a whole however, it is now found that the cost of insurance supervision is more than covered by

just those special insurance taxes which are levied apart from the taxes on premiums.

In actual fact, out of every dollar of insurance taxes collected by the States in 1936, only 5.05 per cent. was spent on supervision service to policyholders, the balance going to general revenue purposes.

It has been estimated that the taxes levied upon the insurance business alone furnished almost 4 per cent. of all the funds for meeting the general expenses of all the States, in addition to paying the cost of maintaining the State insurance departments.

The Federal income tax is assessed on profits after deducting State, municipal and local taxes. Foreign companies are afforded some small relief to the extent that they may deduct from their taxable profits a proportion of their own country's income tax applicable to their American profits. The method of arriving at such proportion is complicated, but broadly the basis is to compare United States income with world income. Head office expenses applicable to the United States may also be deducted.

Having regard to the lavish expenditure of the United States government, I am afraid that the prospects of stabilization, to say nothing of reduction, in the rate of Federal tax, are not encouraging.

Canada

In the Dominion of Canada, as in the United States, the companies suffer from the overlapping of Dominion and provincial authority, resulting in a multiplicity of taxes, both as to character and source.

The Dominion government imposes a premium tax of 1 per cent. on net premiums collected throughout Canada, which is payable whether or not a profit has been earned. It also imposes a tax of 15 per cent. on net profits which may be offset by the amount of premium tax paid. Be it noted, however, that if the premium tax exceeds the liability for profits tax, no refund is permitted.

A contribution to defray the expenses of its insurance department is also exacted.

There are, moreover, nine provinces, each of which (with the exception of Prince Edward Island, which confines itself to a modest licence fee) imposes first a premium tax, rang-

HOW INSURANCE TAXES OPERATE

ing from $1\frac{1}{2}$ per cent. to 3 per cent. of premiums, and secondly, a fire prevention tax of $\frac{1}{4}$ to $\frac{3}{4}$ of 1 per cent. of premiums. The basis of taxation is net of reinsurance ceded to provincial licensed companies. Some provinces again levy profits taxes, licence fees, and contributions to their insurance departments. Not to be outdone, some of the municipalities impose their own taxes, but on the whole these are perhaps unimportant.

All these provincial and municipal taxes are permissible deductions from the profits tax imposed by the Dominion, but it will be seen that a company operating throughout Canada is subjected in most cases to double taxation, and in many cases to triple taxation on the same income. An example will illustrate this.

We will assume a fire premium income in Quebec Province of \$100,000, and a net profit after all local taxes, other than State income tax on profits, of \$5,000.

Before arriving at the profit of \$5,000, the following taxes will have been paid:

	\$
Contribution to insurance departments	27
Licence fee	165
Quebec premium tax 1%	1,000
Fire prevention tax $\frac{1}{4}\%$	250
<hr/>	
State income tax at $2\frac{1}{2}\%$ on profit of \$5,000	[*] 1,442
	125
<hr/>	
Dominion premium tax 1%	1,567
	1,000
<hr/>	
	\$2,567

* A profit before tax of \$6,442.

No Dominion income tax is payable because the Dominion premium tax paid exceeds the tax on profits.

This total tax of \$2,567 represents 2.56 per cent. on Quebec premiums, or 40 per cent. of the profit earned (before taxes). The remaining 60 per cent. of profit is then subject to United Kingdom income tax and national defence contribution, as will be described later.

The total amount paid for taxes throughout Canada in 1937 by 274 Dominion licensed companies transacting fire

and casualty business, was \$3,679,162, or 4.9 per cent. of premiums written.

Australia

The six States of Australia each has its own taxation system, with special reference to insurance companies. Over and above this, the Commonwealth itself taxes the companies on their operations throughout Australia. Here again, therefore, there is no escape from multiple taxation.

The Commonwealth, and each of the States except Tasmania, taxes underwriting profit—usually on the gross basis—at rates varying from 1s. 1.8d. in the £ in the case of the Commonwealth to as much as 6s. 3.6d in the £ in the case of Queensland (if in that State the profits exceed 19 per cent. of capital). Exceptionally, Tasmania levies a premium tax on all companies not registered in its own State, amounting to 5½d. in the £ (plus a special tax on a sliding scale up to 1s. in the £) on gross premiums less local reinsurances only. There is a provision for resident companies to be assessed on dividends declared.

Other taxes imposed in Australia are licence fees of 2 per cent. and 1¼ per cent. on gross premiums in Victoria and South Australia respectively; a hospital tax of 1½d. on each £3 2s. 6d. of gross premiums, and a financial emergency tax of 6d. on each £3 2s. 6d. of gross premiums in Western Australia; but some revision of this latter tax is in prospect. In Queensland there is a tax on reinsurance premiums, less commission, amounting to 11s. 4d. in the £ and a State development tax on net profits at 9d. in the £, and on re-insurances (less commission) at 5d. in the £.

It will thus be seen that companies writing business in Australia are subjected to double taxation in that Dominion alone, and what profit remains is then liable for Imperial taxation.

New Zealand

Although apart from fire brigade charges and licence fee there is only one tax in New Zealand—that levied under the Land and Income Tax Act, 1923—the rate is very heavy, being based on a sliding scale, which rises to a maximum of 7s. 6d. in the £ where the taxable income reaches £8,950.

The basis is gross profit, i.e., before deduction of head office reinsurances.

The calculation of rate is unusual, being a flat 1s. in the £, increased by 1 per cent. of a penny for every £ of taxable income up to £5,500, and increased thereafter by two-thirds of 1 per cent. of a penny for every £ of taxable income until the rate of 7s. 6d. is reached at an income of £8,950.

South Africa

The principal tax in the Union is the Income Tax Act of 1925, which imposes a tax of 2s. 6d. in the £ less 20 per cent., i.e., 2s. net in the £ on profit, net of reinsurances. No reserve, however, for unexpired risks is permitted.

In addition, each of the four provinces in the Union levies a tax on its share of the income assessed for Union tax purposes, at the following rates:

Cape Province	4½d. in the £
Orange Free State	6d. in the £
Transvaal	6d. in the £
Natal	3d. in the £

Both Northern and Southern Rhodesia also levy an income tax on net profits, the former allowing a reserve for unexpired risks and the latter not. The rates of tax are 4s. in the £ in the Northern Colony, whilst in the Southern Colony the rate is fixed each year — usually on a sliding scale.

India

Companies operating in India are assessed by the tax authorities in British India to income tax and super tax on the total profit, net of all reinsurances, earned throughout India. In addition, certain taxes are payable to the Indian States, but this double taxation is subject to a relief of half the State rate of tax.

Exceptionally, a company whose headquarters are in British India, and which carries on business in Mysore, may recover the Mysore State Tax in full in respect of such income as is doubly taxed.

At present the rate of income tax for British India is 26 pies per rupee, equal to 13.54 per cent., and the super tax rate payable on the excess of Rs. 50,000 of profit is 12 pies per rupee, equal to 6¼ per cent. Both these taxes are subject to a surcharge of one-twelfth.

Continent of Europe

The taxation system of the individual European states varies widely, but at least they have one thing in common—no one is allowed to escape. I propose to mention a few countries where the system of taxation is unusual.

The difficulties of precise estimation of profits earned by insurance companies with head offices abroad has led to the adoption, in some countries, of arbitrary or optional bases of computation. For instance, in France, foreign companies may elect to be assessed either on actual net profit or on an assumed arbitrary rate of profit to net premiums, based on the combined experience of the five most prosperous French companies of each year.

In that country also, there is a dividend tax, applicable to all trading concerns. In the case of foreign insurance companies, the amount of tax is governed, wholly illogically, by the proportion of French premiums to world premiums, without regard to whether trading in France has contributed to the dividends which are theoretically taxed. There has also recently been introduced a small tax on undistributed profits, similarly calculated by reference to the French proportion of world premiums.

In Belgium, there is an optional assessment, either on actual net profit or on an assumed arbitrary rate of profit to gross premiums, subject to a minimum amount.

In Holland, the alternative to a tax on actual profit is a tax on 10 per cent. of gross premiums, less commission.

Germany imposes her heavy corporation profits tax on the actual net profit, but only provided that this produces more tax than an alternative arbitrary method, which is based on the German proportion of declared dividends and directors' remuneration.

Then there is her capital levy, or wealth tax, of 5 per mil on the German proportion, based on net premiums, of the company's paid up capital and reserve funds.

There is also the trade tax of 5.4 per cent. on profit in excess of Rm. 3,000.

Norway and Sweden assess foreign companies on an arbitrary percentage of gross premiums, without option, whilst Denmark regards the profit of a foreign insurance company as that percentage of total world profit which its premiums in Denmark bear to its world premiums.

South America

In the Argentine an income tax on profits was first imposed in 1932 as an emergency tax, to continue until the end of 1934, but naturally it is still in force, the current rate of tax being 5 per cent.

There is also a premium tax—in the case of fire insurance the rate is 7 per cent. for foreign companies, against 1.4 per cent. only in the case of native companies. Thus, Argentine is one of the very few countries which discriminates against foreign insurance companies in this way.

Duties are also payable on sums insured.

Brazil's principal tax is an income tax introduced in 1925, the rate in force on profits having steadily climbed until it is now 6 per cent. There is also a tax on remittances as well as State and municipal taxes to meet.

Chile has a "mixed bag" of taxes which includes an income tax, a fiscal tax on premiums, a sales tax on premiums, fire brigade and fire inquests charges, fees to the insurance department, and stamp duties on policies and renewals.

Native companies pay less than foreign companies in respect of the two first named taxes—another unfortunate instance of discriminatory taxation.

You will now have had some idea of the methods employed in obtaining revenue from insurance companies overseas, and I will turn to the position in this country.

United Kingdom

Having complied with the manifold and varied demands of the taxing authorities in almost every overseas country in which a company is operating, what remains of the profits is then subjected to the close scrutiny of His Majesty's Inspectors of Taxes.

In this country the underwriting profit derived from the fire and accident departments is assessed to income tax on an annual basis of income less outgo. Taxable income from underwriting consists firstly of the net premiums (i.e., after deduction of reinsurance premiums) and secondly of the unexpired risk reserve brought forward from the previous year—usually 40 per cent. of the net premiums of that year. The outgo consists of losses incurred, i.e., paid losses plus the amount of losses outstanding at the end of

the year, less the amount of those outstanding at the end of the previous year, commissions, management expenses, and taxes, other than of course British income tax which is not allowed as an expense, and finally the 40 per cent. unexpired risk reserve of the net premiums of the current year. The computation requires to be adjusted to give effect to the provisions of the taxing statutes as to what is or what is not a permissible deduction.

In the marine branch were the full impact of claims is not apparent until the third year of account, the assessment is usually made at the end of the second year, when an estimate is included of the third year settlements. This estimate is adjusted when the actual figure becomes available.

There are thus no outstanding losses or unexpired risk reserve to be included in the computation of marine taxable profit, which conforms otherwise to that of the fire and accident departments.

With regard to the newer forms of insurance, such as credit and aviation, the basis of assessment is usually a matter of negotiation between the company and the Inland Revenue, but broadly speaking if the bulk of the business consists of policies which by their nature are long term contracts, the marine method is likely to prove more satisfactory to the parties concerned.

Interest, dividends and rents, where not taxed by deduction at source, must be included in arriving at the total liability for income tax.

With regard to profits or losses realized on the sale of investments, many insurance companies, by arrangement with the Inland Revenue, elect to bring these items into account for income tax purposes, but this practice is not universal.

It has been held that a conversion of one stock into another stock is equivalent to realization, but it is interesting to recall that holders of the original 5 per cent. War Loan who converted into the 3½ per cent. issue were given the option to treat conversion as a realization or not, as they pleased.

In these days of currency restrictions and exchange depreciation, the calculation of taxable profit has been rendered more complicated by reason of the fact that the com-

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panies' accounts reflect the world wide results converted into sterling.

It is important to bear in mind that the method of treatment of the various items in the books of account does not necessarily govern the calculation of taxable profit, and particularly is this so where conversion of foreign currencies is concerned. The practice of individual companies in this respect may vary, and the Inland Revenue authorities require to satisfy themselves that the method adopted is appropriate and does not penalize the Exchequer.

It is now the practice of the companies to indicate as a footnote to the balance sheet in their Board of Trade returns how foreign currencies have been converted into sterling. Where such basis appears reasonable to the Inspector of Taxes, he will accept it for income tax purposes, provided that realized profits or losses on exchange arising from remittances is brought into account. Company accountants, however, must be prepared to show, if required, what the taxable profit would have amounted to, in a specified currency, such as the United States dollar, had a different basis of conversion been adopted.

When the taxable profit is finally agreed, a tax of 5s. 6d. in the £, or 27½ per cent., is at present charged. Against this 27½ per cent., however, British companies are able to recover Dominion income tax relief in respect of such income as has also borne Dominion or colonial income tax (or its equivalent).

The rate of relief is restricted to the lesser of:

- (a) The rate of Dominion income tax;
- (b) one-half the standard rate of United Kingdom tax.

In other words, the maximum relief obtainable at the present time is 2s. 9d. in the £, so that if the Dominion rate is 2s. 9d. or less, the effect is that the Dominion income is subject only to the United Kingdom rate.

Amount of Relief

The method of arriving at the amount of relief is extremely complicated, but the saving in tax is important. The principle upon which the recovery is computed was laid down in Section 27 of the Finance Act, 1920, and the Courts have from time to time given interpretations of various aspects, the most important recently being the decision of

the House of Lords in the well known case of *Assam Railways & Trading Company, Ltd. v. Commissioners of Inland Revenue*.

The effect is that relief is allowed on precisely that income which is included in both the British and the Dominion assessments. When, as so often happens, the periods of assessment overlap, or the basis of computation differs, such as where certain expenses are allowed by the Dominion and disallowed by the United Kingdom and *vice versa*, it will be obvious that innumerable apportionments and adjustments are necessary to arrive at that income which can be said to be doubly taxed.

Then again, in many cases overseas, tax is paid on premiums or on some basis other than profit, and to arrive at a notional Dominion rate of tax, it is necessary to divide the aggregate taxes allowable for relief by what the Dominion profit would have been if calculated on the British income tax basis.

After all this adjusting has been effected, the relief is then applied to the lesser of the profits shown in the adjusted United Kingdom computation, or the adjusted and apportioned Dominion computation. When, at long last, this stage has been reached, it will frequently be found that the net result is a welcome reduction in the tax burden.

Some of our overseas possessions similarly grant reciprocal relief.

This recovery of tax on income taxed doubly or more is not available in respect of income taxed outside the Empire, although under present United Kingdom arrangements the law provides for relief from double taxation in certain foreign countries in regard to shipping and air transport profits, and in some cases in regard to business carried on through agencies. I am not, however, aware of any benefit to insurance from these arrangements, but I shall refer later to efforts which are being made to induce our government to extend their scope.

National Defence Contribution

In the 1937-38 budget, the Chancellor of the Exchequer introduced the controversial national defence contribution. The first edition of the new tax, which is of a temporary nature, exempted the interest earned by non-life insurance companies, but the second edition removed the exemption,

HOW INSURANCE TAXES OPERATE

notwithstanding that the charge was to be a tax on the profits of trade, and that investment income of trading companies was specifically excluded.

The companies were much concerned at the discrimination against them, and after strenuous efforts, they succeeded in obtaining from the Chancellor, in his 1938-39 budget, a slight alleviation, in that the tax on interest would be restricted to the interest income on a sum not exceeding 150 per cent. of the year's premium income.

The Chancellor seems to have arrived at this figure of 150 per cent. by a process of reasoning reminiscent of a game with which many of us became acquainted at a very early stage of our childhood. The game, you will remember, began like this. Think of a number, double it, and so on. The Chancellor proceeded in exactly the same way. He argued that reserves equal to 40 per cent. of premiums were required for unexpired risks, plus 35 per cent. for outstanding losses. This made a total of 75 per cent., and he promptly doubled it to make provision for "exceptional cases and some catastrophic risks."

The companies are by no means satisfied that the figure of 150 per cent. is either fair or reasonable, but unfortunately there is no prospect of obtaining any revision of the Chancellor's entirely arbitrary basis.

One is tempted to express the view that it is a pity he had not continued the game, and had taken away the number he first thought of!

The current rate of tax is 1s. in the £ and is allowed to be deducted in the calculation of profit for income tax.

Thus, at the present time, the United Kingdom rate of taxation on the underwriting profit of insurance companies (other than life) is 31.125 per cent., or (to the nearest penny) 6s. 3d. in the £, subject, as I have explained, to Dominion income tax relief.

It will now have been appreciated that after paying municipal, provincial, state or government taxes abroad, and then paying United Kingdom taxes here, the profit earned overseas has dwindled to very exiguous proportions.

To refer back to our example in Quebec Province, where a profit (before tax) amounting to \$6,442 had been earned, it will be found that by the time the British tax collector had finished with it—and allowing for Dominion income tax

relief—the final amount left in the hands of the company is approximately \$3,117, arrived at as follows:

Profit in Quebec	\$ 6,442
Canadian taxation	\$ 2,567
British taxation (less relief)	758
	<hr/>
Ultimate profit	\$3,117

The total taxation is, therefore, equal to 3.32 per cent. of net premiums, or 51.61 per cent. of earned profit.

It may be argued that this is an isolated example, not giving a fair indication of the extent to which the operations of our insurance companies are penalized. I therefore made a close analysis of the actual experience of my own company, which has a world wide business, and found that during the year 1937, the total amount paid in taxation at home and abroad (less relief) represented 47.85 per cent. of the profit earned in that year.

Of course, part of this taxation related to the previous year's profits, which were a little higher than those of 1937, and some allowance should therefore be made for this.

I then made an investigation into the accounts of twenty-five of the larger British companies in each of the five years ended 1937, with a view to estimating, if I could, the amounts paid for imperial, foreign and dominion taxes. Obviously, the percentage of profit of individual companies varied considerably in each year, and I did not expect to find that the average percentage of total taxation would be quite as high as the percentages I have already quoted.

It was not very easy to ascertain the information I wanted, because the accounting practice of the companies in regard to taxation is not uniform. Some do not disclose the amount of overseas taxes, but add it to management expenses, or in the case of marine insurance, to settlements. Premium taxes may be deducted from premiums, and there are other similar uncertainties which detract from precise estimation.

Average Percentage of Taxation Equal to 43 Per Cent. of Profits

However, after making appropriate adjustments, I am of opinion that the average percentage of total taxation (home

HOW INSURANCE TAXES OPERATE

and foreign) for the five-year period 1933-37 was certainly not less than 43 per cent. of the profit, and was probably greater than this. As the home business is not doubly taxed, it is obvious that the overseas business was taxed in excess of 10s. in the £.

So we arrive at the sobering reflection that the hard won profits of this great industry of ours are shared almost equally with the tax collecting fraternity, or to put it another way, we spend nearly six months of every year in working for various governments scattered over the face of the globe.

Is there any means by which we can exercise control of this very important item of expense? Unfortunately there is very little we can do, and until the authorities in this country extend the relief now given to profits arising from Empire sources, to profits from foreign sources, there is little prospect of alleviation.

There are many countries, outside the Empire, which have entered into reciprocal agreements with other foreign countries in this respect. For instance, the United States, Holland, Switzerland and France, have already provided in their laws for relief to their nationals from double taxation. On the Continent most of the principal countries have entered into bilateral treaties on the lines of the convention drafted over ten years ago by a committee of the League of Nations. At the present time, there are nearly seventy such agreements between foreign states.

Within the Empire there is only one agreement of the kind—that with the Irish Free State, made in 1926, whereby residents of the United Kingdom were entirely relieved from Irish income tax and super tax, and entirely subjected to British income tax and surtax. Conversely, residents in the Irish Free State were entirely relieved from British income tax and surtax and entirely subjected to Irish income tax and super tax.

Admittedly the case of Ireland lends itself to such an agreement owing to the similarity of the tax procedure in both countries. If, however, foreign countries can hammer out agreements between themselves where the respective tax procedure is not uniform, it is not a comfortable reflection that our own country is unable or unwilling to undertake a similar measure.

According to the British National Committee of the International Chamber of Commerce, the maximum cost to the United Kingdom of an adequate reform of double taxation would not exceed £6,000,000, a small sacrifice considering the benefits which would accrue to our diminishing overseas trade.

The prospects of any move by the United Kingdom are, however, most discouraging, for in the course of the debate on the Finance Bill, 1937, the government spokesman said: "We have no evidence to lead us to believe that any acceptable basis for a settlement of the general problem is in sight as regards foreign countries."

Conclusions

We are, therefore, thrown back on our own resources, and the only advice I can offer is, first, that no assessment to tax should ever be passed without careful reference to the legal enactment imposing the tax, and secondly, that legal decisions affecting taxation, whether in this country or overseas, should be closely watched, as in this way it may sometimes be possible to effect considerable savings.

I have not attempted to cover the tax system of every country in which British companies operate, but I have given you a fair indication of the various methods of assessment throughout the world, which will have enabled you to understand how heavy is the burden of taxation borne by insurance. It will, however, be realized that nowadays practically no overseas trading of any kind, insurance or otherwise, can be undertaken which does not involve at least double taxation.

Apart from this ever increasing burden with its resultant reduction in earned profit, there is another and perhaps more serious aspect to the question. It cannot be doubted that multiple taxation in itself is an obstacle to the free investment of capital, and restricts international trade, in that it tends to lead to change of ownership of old investments from foreigners to native investors and thereby panders to the mistaken theory of self-sufficiency. If it is possible to alleviate the burden in any way, then some contribution will have been made to the appeasement of conflicting economic interests which contribute to the disturbance of the international political situation.

NEW LEGISLATION RESPECTING TAXATION

NEW LEGISLATION RESPECTING TAXATION DOMINION AND PROVINCIAL

Editor's Note: The information published under this heading indicates only in general terms the nature of recent legislation of the Provincial Governments respecting Taxation. For the Text of the legislation, readers should refer to the respective Acts. As the Dominion Income Tax Act, for the sake of convenience, has been having frequent office consolidations, it has been decided to publish in this column, for reference purposes, the amendments in full each year. A copy of a Dominion Statute can be obtained from the King's Printer, Ottawa, and of a Provincial Statute from the King's Printer of the Province concerned.

To provide information to chartered accountants who are called upon by their clients to prepare taxation returns in other provinces, the Dominion Association of Chartered Accountants some time ago sent to the reference library of each provincial Institute a complete set of tax legislation passed by the various provincial legislatures, and is keeping this information up to date by sending copies of amendments to such legislation as soon as these amendments are available for distribution.

I. Dominion

(a) Income War Tax Act

3 GEORGE VI, 1939

An Act to Amend the Income War Tax Act

[Assented to 3rd June 1939]

R.S. c. 97;
1928, c. 12;
30; 1930, c.
24; 1931, c.
35; 1932, c.
43; 44;
1932-33, cc.
14; 15; 41;
1934, c. 19;
55;
1935, cc. 22-40;
1936, c. 6;
38;
1938, c. 48.

HIS Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. Paragraph (k) of section two of the *Income War Tax Act*, chapter ninety-seven of the Revised Statutes of Canada, 1927, is repealed and the following substituted therefor:—

"(k) 'taxpayer' includes any 'person' whether or not liable to pay tax;"

2. Section two of the said Act is further amended by adding thereto the following paragraph:—

"(r) 'personal and living expenses' shall include *inter alia*—

(i) the expenses of properties maintained by any person for the use or benefit of any taxpayer or any person connected with him by blood relationship, marriage or adoption, and not maintained in connection with a business carried on *bona fide* for a profit and not maintained with a reasonable expectation of a profit.

'personal
and living
expenses.'

(ii) the expenses, premiums or other costs of any policy of insurance, annuity contract or other like contract if the proceeds of such policy or contract are payable to or for the benefit of the taxpayer or any person connected with him by blood relationship, marriage or adoption."

The provisions of this paragraph (r) shall extend to expenses of properties and establishments maintained by a personal corporation, estate or trust for the benefit of any of its shareholders or beneficiaries.

3. Paragraph (e) of subsection one of section three of the said Act is repealed and the following is substituted therefor:—

Taxable
income.

THE CANADIAN CHARTERED ACCOUNTANT

"(e) personal and living expenses when such form part of the profit, gain or remuneration of the taxpayer or the payment of such constitutes part of the gain, benefit or advantage accruing to the taxpayer under any estate, trust, contract, arrangement or power of appointment, irrespective of when created."

4. Section four of the said Act is amended by adding thereto the following paragraph:—

"(s) Dividends paid to a company incorporated in Canada by a company which has never paid a tax by reason of sections eighty-nine and ninety of this Act."

5. Paragraph (d) of subsection one of section five of the said Act, as enacted by section four of chapter forty-one of the statutes of 1933, is repealed and the following substituted therefor:—

"(d) One thousand dollars in the case of all other persons, except corporations, associations, estates and trusts; and".

6. Paragraph (l) of subsection one of section five of the said Act, as enacted by section four of chapter fifty-five of the statutes of 1934, is repealed and the following is substituted therefor:—

"(l) Annual interest accruing within the taxation period in respect of succession duties or inheritance taxes;"

7. Subsection one of section six of the said Act is amended by adding thereto the following paragraph:—

"(m) the salary, bonus, director's fee or other like remuneration in excess of fourteen thousand dollars paid by a company incorporated in Canada to a non-resident, unless such non-resident pays tax thereon under this Act."

8. Section six of the said Act is further amended by adding thereto the following subsection:—

"(5) Expenses incurred by a corporation to earn non-taxable income shall not be allowed as a deduction in computing the income to be assessed. Where general expenses are incurred to earn both taxable and non-taxable income the Minister shall have power to apportion the said expenses."

9. Subsection two of section eight of the said Act is repealed and the following substituted therefor:—

"(2) Such deduction shall not exceed the same proportion of the tax otherwise payable under this Act as that which the taxpayer's net income from sources within such country bears to his entire net income from all sources, without taking into account the exemptions provided by paragraphs (c), (d), (e) and (i) of subsection one and by subsections 2, 3 and 4 of section five of this Act."

10. Subparagraph (ii) of paragraph (e) of subsection two of section 9B of the said Act, as enacted by section eight of chapter thirty-eight of the statutes of 1936, is repealed and the following is substituted therefor:—

"(ii) any rights in and to the use of any work, whether copyrighted or not, subsequently produced or reproduced in Canada, by way of the spoken word, print, or mechanical sound on or from paper, composition, films or mechanical devices of any description."

11. Paragraph (e) of subsection two of section 9B of the said Act, as enacted by section eight of chapter thirty-eight of the statutes of 1936, is further amended by adding thereto the following:—

Exempt
Dividends.

Other
persons.

Interest on
succession
duties.

Limitation
of salary
deduction.

Apportion-
ment of
expenses
between
taxable and
non-taxable
income.

Limit of
deduction.

Payment
in respect
of right to
use of works
whether
copyrighted
or not.

Copyright
and copy-
righted
works.

NEW LEGISLATION RESPECTING TAXATION

"No tax shall be payable by virtue of this paragraph in respect of any portion of any payment disallowed to the Canadian debtor under section 23b of this Act."

12. Subsection six of section twenty-one of the said Act is amended by adding thereto the following:—

"When the total income earned by a personal corporation since its incorporation has been taxed against and received by its shareholders, any further dividends declared and paid by such a corporation out of capital shall not be liable to taxation in the hands of the shareholders.

Personal Corporation Dividends.

13. The said Act is amended by adding thereto the following section:—

"23b. Where any person carrying on business in Canada pays to a non-resident as price, rental, royalty or other payment for the use of any property or reproduction thereof, or for any right, an amount which is not in conformity with similar payments made by other persons in the same kind of business, then such payment may, for the purposes of determining the income of such person, be adjusted by the Minister accordingly, unless he is satisfied that the payor and the recipient are not associated, controlled one by the other, or controlled by the same interests."

Unreasonable payment to non-resident affiliates.

14. Section thirty-two of the said Act is amended by adding thereto the following subsection:—

"(4). Where a person has transferred the right to income to any person connected with him by blood relationship, marriage or adoption, or to trust for his or their benefit, without transferring the ownership of the property producing such income, he shall nevertheless be taxed on the said income as if the transfer had not been made."

Transfer of the right to income.

15. Subsection three of section thirty-five of the said Act, as enacted by section thirteen of chapter forty of the statutes of 1935, is amended by adding thereto the following:—

"Should a company revoke any such election it shall not be entitled to make a second election hereunder for a period of five years from the date of such revocation."

Consolidated returns of income of corporations.

16. Subsection one of section eighty-nine of the said Act, as enacted by section twenty of chapter thirty-eight of the statutes of 1936, is repealed and the following substituted therefor:—

16. (1) Subject to the provisions of this section the income of a company derived from the operation of any metalliferous mine which comes into production after the first day of May, 1936, and prior to the first day of January, 1943, shall be exempt from the corporation tax hereunder for its first three fiscal periods established by the Minister hereunder following the commencement of such production."

Exemption of metalliferous mines.

17. The said Act is amended by adding thereto the following Part:—

"PART XIV

"CAPITAL EXPENDITURE ALLOWANCE

18. (1) A taxpayer shall be entitled to deduct from the taxes otherwise payable under this Act an amount up to ten per centum of the capital costs hereinafter in this section mentioned in the manner provided.

Deduction up to ten per centum.

One-third of the said ten per centum must be taken in each of the first three taxable fiscal periods occurring within the first six fiscal periods of twelve months each ending on or after the 30th April, 1940,

THE CANADIAN CHARTERED ACCOUNTANT

provided however that should the said one-third exceed the tax otherwise payable in any one taxable period, the excess may be offset against taxes otherwise payable in the remaining period or periods of the said taxable periods.

Further provided, in any event, that no deductions shall be allowed against any tax payable for periods ending after 29th April, 1946.

Costs incurred and paid between certain dates

(2) The capital costs on which the ten per centum shall be calculated are those costs incurred and paid by the taxpayer in the period beginning the first day of May, 1939, and ending the thirtieth day of April, 1940, in respect of work actually done in Canada during the said period, on the construction, manufacture, installation, betterment, replacement, or extension of buildings, machinery or equipment in the said period from the first day of May, 1939, to the thirtieth day of April, 1940, provided such buildings, machinery or equipment are to be used in the earning of the income of the taxpayer.

Excess costs controlled.

(3) All costs and expenditures for labour, wages, salaries, fees, administration or other like expenses and for purchase of material and equipment shall be considered as a cost herein in such amount as the Minister may determine having regard to the prevailing rates and fair market price and any excess over such determination shall not be allowed.

Capital costs excluded.

(4) For the purposes of this section "capital costs" shall not include:—

- (i) the cost of land;
- (ii) the cost of leases of or licences to work oil or mineral lands or other mining lands;
- (iii) the cost of, or rentals under, leases of any buildings, machinery or equipment;
- (iv) the cost of any patent, goodwill, intangible right or incorporeal hereditament, whether or not an integral part of the price of any property;
- (v) the cost of any buildings, machinery or equipment used and situated outside of Canada;
- (vi) the cost of any building constructed prior to the first day of May, 1939, or the cost of any building which has already been used by any other person;
- (vii) the cost of any machinery or equipment which has been used at any time prior to the date of acquisition by the taxpayer;
- (viii) the cost of any office equipment or furnishings;
- (ix) the cost of a house, including a duplex and an apartment house;
- (x) undue or excessive costs incurred in connection with the purchase, manufacture or construction of any building, machinery or equipment. The Minister shall have power to determine the costs which are undue or excessive in any case;
- (xi) all costs incurred in the continuation of capital works or projects commenced prior to the first day of May, 1939;
- (xii) all costs incurred by a company the income of which is exempt under the provisions of section eighty-nine of this Act;
- (xiii) all costs incurred by any bank, insurance company, trust company, or any company primarily engaged in lending money (with or without security), making investments, dealing in securities or any other like financial business;
- (xiv) interest paid by the taxpayer on borrowed capital.

NEW LEGISLATION RESPECTING TAXATION

(5) For the purposes of this section the Minister shall have power to determine whether capital costs fall within the provisions of subsection two or within the types of capital costs excluded by subsection four of this section and they shall be dealt with accordingly.

Discretion of Minister.

(6) (a) The Minister may make such regulations and prescribe such information forms as may be required for carrying this section into effect.

Regulations and penalties.

(b) Any person failing to file an interim information form within the prescribed time shall lose not more than fifty dollars of the benefit of the first annual deduction herein, or to the extent thereof, provided in any case the penalty shall be not less than ten dollars, which may be assessed against the taxpayer.

(c) No deduction shall be allowed unless the taxpayer files the final form as prescribed on or before the thirtieth day of June, 1940.

(d) In addition to any other penalty provided in this or in any other Act, any false statement made in any form prescribed or in any information required hereunder shall disentitle the taxpayer to any deductions or benefits of this section."

18. Section six of this Act shall be applicable to the income of the year 1939 and to all subsequent periods. All other sections except sections ten, sixteen and seventeen shall be applicable to the income of the year 1938 and fiscal periods ending therein and to all subsequent periods. Section ten shall be deemed to have come into force on the twenty-sixth day of April, 1939.

Coming into force.

(b) The Special War Revenue Act

The chief amendments of the *Special War Revenue Act* (R.S. 1927, c. 179 with amendments) passed at the 1939 session of Parliament were of section 76, to provide for uniformity of the excise tax on matches in small packages; of section 88, to provide that the special excise tax of three per centum on the duty paid value of goods imported into Canada shall apply on goods subject to entry under the general tariff; and of schedule III, to bring it into conformity with the customs tariff as amended.

(Summaries to be continued in August issue)

GENERAL NOTES

The Annual Meeting

The Executive Committee of The Dominion Association of Chartered Accountants are pleased to announce that, at this year's annual meeting in Saskatoon, the Institute of Chartered Accountants in England and Wales will be represented by Mr. George R. Freeman of London, a former President of that Institute, and that the American Institute of Accountants will be represented by Mr. Clem W. Collins of Denver, Colorado, President of the Institute. Both will be giving addresses at the meeting.

Proposed Amendments of By-laws of Association

(to be submitted at the 1939 annual meeting in Saskatoon)

RESOLVED that by-law 12 of the Dominion Association of Chartered Accountants be repealed and the following be substituted therefor:

12. The Council at its first meeting following the annual meeting of the Association shall elect a President and two Vice-Presidents of the Association, and each of such officers shall hold office from the date of his election until the date of the election of his successor. In the event of the death or retirement of a President of the Association during office, the Council shall fill the vacancy created. Any vacancy in the office of a Vice-President shall be filled in like manner.

RESOLVED that by-law 18 of the Dominion Association of Chartered Accountants be repealed and the following be substituted therefor:

18. (a) The time and place of each annual meeting of the Association shall be determined by the vote of the Council at the annual meeting next preceding, having regard to the provisions of paragraph (b) hereunder.

(b) For the purpose of the annual meeting the Institutes shall be in the following grouping: namely, Maritime (Nova Scotia, Prince Edward Island and New Brunswick), Central (Quebec and Ontario), Prairie (Manitoba, Saskatchewan and Alberta), and Pacific Coast (British Columbia); and the place of the annual meeting shall be in the following rotation, namely:

1938 Maritime	1941 Pacific Coast
1939 Prairie	1942 Prairie
1940 Central (Quebec)	1943 Central (Ontario)

(c) As far as practicable the order of business procedure of the annual meeting shall be determined by the Executive Committee and announced in THE CANADIAN CHARTERED ACCOUNTANT at least two months before the date fixed for such annual meeting.

1st June 1939.

GENERAL NOTES

Our Contributors This Month

The Editorial Committee wishes to acknowledge the kind assistance of PROFESSOR R. G. H. SMAILS in preparing the editorial comments for the issues of July, August and September.

CHARLES W. CLARK was born in Kent, England, came to Canada in 1896 and attended school at Strathcona, (now South Edmonton), and the University of Alberta. After overseas service with the 7th Battalion he returned to Vancouver where he served his articles with Messrs. Riddell, Stead, Hodges and Winter and became a member of the Institute of Chartered Accountants of British Columbia in 1926. He was in public practice until 1935 when he was appointed assistant secretary of Placer Development Limited and associated companies.

Comments and Descriptions in Annual Reports of Corporations

The following comments and descriptions have appeared in recent financial statements of companies incorporated in Canada.

The publication of such comments here from time to time is not necessarily to be regarded as approval or criticism of the form thereof by the Editorial Committee or by the Dominion Association of Chartered Accountants but rather as interesting information for readers.

1. The following description of inventories appears in the balance sheet of *Acme Glove Works Limited* as at 31st December 1938:

Inventories of Finished Goods, Goods in Process and Raw Materials certified by responsible officials of the Company as being on hand and valued at laid-down purchased, or manufacturing cost, determined in accordance with the Company's usual practice, or at current market price, whichever was lower.

2. The balance sheet as at 31st December 1938 of *Dominion Stores Limited* contains the following description of inventories:

Merchandise Inventories, determined by physical stocktaking for warehouse and meat stocks and book inventories (verified monthly) for store grocery stocks, and valued at cost or estimated cost, which basis is not higher than market value, as certified by the management.

THE CANADIAN CHARTERED ACCOUNTANT

3. The following extract is taken from the Auditors' Report to the shareholders of the *Traders Finance Corporation Limited* on its balance sheet as at 31st December 1938:

In carrying out our examination we visited the Head Office and Branches of the Company (excepting the sub-offices at and), and made a joint examination with representatives of the Company's internal audit department of the accounts with the makers of the notes receivable and of the other assets and liabilities. An audit of the detail transactions was carried out during the year by the Company's internal auditor, who made substantial tests of the correctness of the accounts by direct correspondence with the makers of the notes receivable, and similar tests were also made of the existence of the notes receivable. We satisfied ourselves that adequate provision has been made for doubtful accounts. The cash in banks and the bank loan were verified by bank certificates and we examined the certificates representing the capital stock of Canadian Insurance Shares Limited owned by the Company. So far as we are able to determine, full provision has been made for all liabilities as at December 31 1938 and the reserve for unearned finance charges, which was determined on the Company's usual basis of accounting, is, in our judgment, fair and reasonable.

4. The following letter on the subject of auditors' reports has been received.

The Editor,
The Canadian Chartered Accountant,

Sir:

At the foot of a balance sheet which was published in Toronto recently there appears the auditors' certificate reading as follows:

"We have examined the books and accounts of the for the year ended and in accordance with the Ontario Companies Act we certify that all our requirements as Auditors have been complied with. In connection with our examination we made a general review of the accounting methods and carried out a test of the transactions recorded but we did not make a detailed audit for the period or examine the Reserve for Based on such examination, we report that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the affairs at the according to the best of our information and the explanations given to us and as shown by the books of the

Toronto, Chartered Accountants, Auditors."

The balance sheet was not that of a company the size of, say, International Nickel as one might be led to believe by the wording of the certificate but of a concern whose total income for the year amounted to approximately \$9,000.00 and whose total assets amounted to \$3,100.00. The reserve to which special reference is made was for \$1,350.00.

In your search for interesting specimens of accountants' certificates for publication in the magazine you apparently overlooked this one.

Yours faithfully,

Toronto, 3rd June 1939.

ONTARIAN.

LEGAL DECISIONS

LEGAL DECISIONS

The full text of the judgments in the following four cases under the *Income War Tax Act* have been published in *Canada Law Reports* (Part I—1939), a copy of which has been sent to the library of each of the provincial institutes of chartered accountants. Summaries of these judgments have already appeared in THE CANADIAN CHARTERED ACCOUNTANT in the issues indicated below and the subject matter of each case is again set out for reference.

The Pioneer Laundry & Dry Cleaners Ltd. case—Income tax—Depreciation allowance—Minister's discretion. Appeal from Exchequer Court dismissed—[1939] S.C.R. 1. (Summary published in THE CANADIAN CHARTERED ACCOUNTANT, January 1939.)

(EDITOR'S NOTE: We understand that a petition for special appeal of this judgment to the Judicial Committee of the Privy Council was granted on or about 24th April last.)

The C. P. Fullerton case—Income tax—Payment on cessation of office—Taxability as income.—[1939] Ex. C.R. 13. (Summary published in THE CANADIAN CHARTERED ACCOUNTANT, December 1938.)

The Walter E. H. Massey Estate case—Income tax—Redemption of shares at a premium—Charge against surplus—"Undistributed income on hand."—[1939] Ex. C.R. 41. (Summary published in THE CANADIAN CHARTERED ACCOUNTANT, January 1939.)

The Bessie L. Shaw case—Income tax—"Income from but not proceeds of life insurance policies"—Liability for tax.—[1939] Ex. C.R. 35. (Summary published in THE CANADIAN CHARTERED ACCOUNTANT, January 1939.)

[EDITOR'S NOTE: The following are brief summaries of recent decisions of the Canadian Courts as taken, by the kind permission of the Canada Law Book Company, from the *Dominion Law Reports*. In each case reference is made to the volume of the *Reports* where the full judgment may be found. It should be kept in mind that the decisions given may not in every case be final.]

**Banks—Statutory security—Assignment of vendor's lien—
Future advances**

(*Canadian Bank of Commerce v. Yorkshire & Canadian Trust Ltd.*)

Supreme Court of Canada

The assignment to a bank of a vendor's right to his purchase money under the land contract, as security for future advances, is invalid under s. 75(2)(c) of the Bank Act which prohibits the bank from either directly or indirectly lending money or making advances upon the security, mortgage or hypothecation of any lands, tenements or immovable property; such an assignment, however, is valid as additional security for past advances and the proceeds under the agreement of sale above such past advances belong to the estate of the vendor.—[1939] 1 D.L.R. 401.

Brokers—Short sale—Broker's right to protect self

(*Zacks v. Gentles & Co.*)

Supreme Court of Canada

A broker who makes a short sale of stock on behalf of a customer is entitled to do what is reasonable having regard to the interests of the customer as well as his own, and if the customer fails to comply with the reasonable requirements of his broker to protect his speculative margin account against an adverse balance, the broker is entitled from time to time to do what is reasonable under existing circumstances to protect the account against loss, having regard to the prevailing price of the stock; he is not entitled, however, to make purchases of the stock on his own behalf, if such purchases have the effect of raising the price of the stock adverse to the interest of the customer.—[1939] 1 D.L.R. 545.

Contracts—Dealing in grain futures—Enforceable contract

(*Prudential Exchange Co. v. Edwards*)

Supreme Court of Canada

Dealings in grain futures which involve definite and mutually reciprocal obligations capable of enforcement, on the part of the seller to deliver the grain purchased and on the part of the purchaser to accept delivery, are not gaming transactions within the prohibition of s. 231, Cr. Code, and

LEGAL DECISIONS

the parties thereto are not *particeps criminis* as will affect the validity of notes given therein even though no delivery in specie had been contemplated by the purchaser.—[1939] 1 D.L.R. 465.

Executors—Compensation to trustees—“Executor’s expenses”

(*Re Smith, Re Bell*)

Manitoba Court of Appeal

Where under an agreement of settlement approved by the Court executors were required to sell real estate to pay legacies and annuities, held that such allowances for compensation to the trustees under the agreement, who were also the executors, as were general to the administration are to be borne by the reduced estate; such allowances as pertain to the lands in question are to be borne by the equitable owners; namely by the estate and next-of-kin in equal proportions. Per Trueman, J.A.: Remuneration of executor or trustee is not “executor’s expenses of administration,” or “carrying charges” of the property, within the meaning of said agreement.—[1939] 1 D.L.R. 657.

Sales tax—Composite sales price—Whether excess amount collected

(*The King v. Imperial Tobacco Co.*)

Supreme Court of Canada

Prior to the increase of the Dominion sales tax from 4% to 6% a company charged its customers for goods sold a composite price which included sales tax, remitting 4% thereof to the Government. After the increase it added 2% “on a/c of sales tax” to the previous composite price, remitting 6% of the total to the Government. Held, this procedure did not constitute a colourable collection of moneys as sales tax in excess of that authorized so as to render the company liable under s. 119 of the *Special War Revenue Act* (Can.) as amended 1934. The company had in effect merely increased the price of its goods.—[1939] 2 D.L.R. 609.

(Editor’s Note: A reference to the judgment of the Exchequer Court of Canada in this case was published in the October 1938 issue of THE CANADIAN CHARTERED ACCOUNTANT, p. 312.)

**Sales tax—Special War Revenue Act—Liability for tax—
Partnership part of corporation**

(*The King v. Canada Rice Mills Limited*)

Exchequer Court of Canada

Defendant corporation, manufacturers and sellers of rice products, organized a partnership consisting of the shareholders in the corporation for the purpose of purchasing the corporation's output and selling it to the consumers. The partnership occupied the same offices as the corporation, the goods were kept in the same warehouse, there was no increase in total staff, and no increase or decrease in the cost of producing and selling the rice. The corporation sold its products to the partnership at a price below the usual wholesale price and the profits on the sale by the partnership were paid to the partners in the proportions in which they held shares in the corporation. Held, the partnership was a part of the corporation so far as sales tax was concerned, and defendant was liable for sales tax under the Special War Revenue Act, R.S.C. 1927, c. 179, on the basis of the selling price of the partnership and not on the basis of its own selling price to the partnership.—[1939] 2 D.L.R. 45.

**Succession duties—Dominion and Quebec company shares—
Head office in Quebec—Registration elsewhere—
Taxability in Quebec**

(*Re Thoburn*)

(*Ivey et al. v. The King*)

Quebec Court of King's Bench, Appeal Side

Shares in Dominion and Quebec Companies whose head offices were in Montreal but which maintained transfer registries in the Province of Ontario where they were listed on the Stock Exchange and where their certificates in strict form and transferable by endorsement only were found upon death of their owner, held "situate" in Ontario and hence not subject to succession duty under s. 4 of the Succession Duties' Act, R.S.Q. 1925, c. 29.—[1939] 1 D.L.R. 631.

LEGAL DECISIONS

**Taxes—Exemption from general taxes—Mill property—
Special assessments—Erroneous payments**

(*Three Rivers v. Canadian International Paper Co.*)

Supreme Court of Canada

An agreement between a municipality and a paper mill company whereby the latter was granted an exemption from general taxes held not displaced by a subsequent agreement fixing the exemption on the basis of a fixed valuation, and that both agreements ran concurrently until the expiration of twenty years; that the company was not assessable for drainage or for statutory contributions to public assistance, to which it was not obliged to contribute because of its exemption from the general tax. But the Court refused the taxpayer's cross-demand for taxes allegedly paid under error upon which there was no proof. (Cannon and Crocket, JJ., dissenting, were of the opinion that error had been proved which was known to both parties).—[1939] 1 D.L.R. 439.

**Wills—Annuity—Insufficiency of income—
Payment out of residue**

(*Montreal Trust Co. et al. v. Cahill et al.; Re Aucoin*)

Nova Scotia Supreme Court

A direction by a testator that his executors and trustees set aside a "sufficient sum" which shall, when invested, yield "sufficient income" to pay his niece a yearly annuity of \$500, shows an intention on the part of the testator to charge his estate with the payment of that annuity ahead of the interests of residuary legatees; and where a sum of \$10,000, invested in Government securities, has failed to produce that income because of a fall in the interest rate, the deficiency may be met from income derived from the residue without the necessity of augmenting the capital investment. (Graham, J., dissented).—[1939] 1 D.L.R. 526.

Wills—Estate to bear income tax on bequests—Apportionment on total tax payable by beneficiary

(*Re Kemp*)

Ontario Court of Appeal

Where testator directed his executors to maintain his house for the benefit of his widow and to pay her a fixed

sum monthly for maintenance expenses, and further directed payment to her of a lump sum and an annuity if she gave up the house, held under a subsequent clause providing that all income taxes payable on the foregoing gifts should be paid out of the estate, (1) the estate was to bear only that proportion of total income tax payable by the widow which the above gifts bore to her entire income, notwithstanding that a higher rate of tax was payable on a portion of her income by reason of such gifts; (2) although such income tax was deemed to be additional income received by the widow under the *Income War Tax Act* (Canada), the income tax payable thereon was not to be borne by the estate.—[1939] 2 D.L.R. 338.

(A reference to the judgment of the Supreme Court of Ontario in this case was made at page 371 of the May 1939 issue of THE CANADIAN CHARTERED ACCOUNTANT.)

Wills—Gift—Undue influence—Impeaching — Appointment as executor

(Re Crompton, Crompton v. Williams)

Ontario Supreme Court

In the case of a gift to a donee in a position of confidence or in a position to exercise undue influence over the donor, there is a presumption of undue influence and the onus is on the donee to prove the righteousness of the transaction, that the transaction was fairly conducted as between strangers, and that the donor appreciating the effect of the transaction acted voluntarily and deliberately.

In an action to set aside a will once testamentary capacity is shown and that the testator knew and approved the contents of the impeached will, the onus is on those attacking it to show fraud or undue influence.

A gift in a will procured by the legatee partly by undue influence, partly by misrepresentation and partly by depriving the testator of the benefit of advice to which she was entitled will be set aside and the remainder of the will admitted to probate, and under these circumstances the Court will not interfere with the legatee's appointment as a co-executor.—[1938] 4 D.L.R. 237.

PROVINCIAL NEWS

PROVINCIAL NEWS BRITISH COLUMBIA

The Institute of Chartered Accountants of British Columbia announces that Mr. Cyril A. Nixon, having passed all the examinations of this Institute, has now been admitted as an associate member.

The results of the recent Final law examinations of this Institute, just announced, show that first place was obtained by John T. Watt and second place by John W. Bootle. Other successful candidates were: James Brown, Cyril A. Nixon, J. F. R. Shallcross and H. G. Watson.

ONTARIO

An interesting ceremony took place in the library of the Institute of Chartered Accountants of Ontario on Thursday afternoon, June 15th, when the following twelve members were admitted as Fellows of the Institute: A. E. Allen, J. F. Gibson, W. D. Glendinning, R. R. Grant, H. P. Herington, W. G. H. Jephcott, T. E. Lawless, J. V. Mapp, C. A. Patterson, S. H. Sorley, R. F. Bruce Taylor, all of Toronto, and G. C. Ferrie of Hamilton.

Mr. Gordon D. Campbell, President, and other Fellows of the Institute, welcomed those of the above members who were able to be present and in presenting the certificates referred to the designation of "Fellow" as the highest honour that the Council could bestow on a member, and expressed to the recipients the pleasure which the occasion gave to the members of the Council and himself.

The Fifty-Sixth Annual General Meeting of the Institute of Chartered Accountants of Ontario was held at the Royal York Hotel on Friday, June 23rd at 10 a.m. and was attended by a representative gathering of members from various parts of the province.

The report of the Council and the financial statement, indicating continued progress in the Institute, were referred to by the President, Mr. Gordon D. Campbell.

The election of Council resulted as follows: Gordon D. Campbell, G. C. Ferrie, J. F. Gibson, R. R. Grant, E. H. Howson, Fred C. Hurst, W. G. H. Jephcott, G. S. Jewell, J. V. Mapp, A. M. Milne, A. E. Nash, W. H. Pettit, J. W. Taylor, R. F. B. Taylor and F. S. Vanstone.

At a meeting of the Council held immediately after the Annual Meeting the following were elected as officers for the ensuing year: President, J. W. Taylor; First Vice-President, W. G. H. Jephcott; Second Vice-President, J. F. Gibson; Secretary-Treasurer, A. E. Nash.

Representatives on the Council of The Dominion Association of Chartered Accountants are: J. W. Taylor; W. G. H. Jephcott; A. E. Nash; with J. F. Gibson an alternative.

The Institute auditors for the year are J. C. Vanstone and J. M. Blanch.

Following the business meeting the annual golf tournament was held at the Lakeview Golf and Country Club, Port Credit. In the evening a supper dance was held at the Royal York Hotel and was attended by over five hundred members and guests.

QUEBEC

The fifty-ninth annual meeting of the Society of Chartered Accountants of the Province of Quebec was held in the Assembly Room of the Royal Bank of Canada at 10.30 a.m. Monday, 19th June 1939, and the report of the retiring President, Mr. Maurice Samson, and his Council showed that excellent progress had been made by the Society during the year. The total membership of the Society at 31st May was 588, an increase of 57 over that of the previous year-end. The financial statement showed a surplus of \$5,259.70 on the year's operations. The annual election of officers for the year 1939-40 resulted in the following: President, Alex. Ballantyne; First Vice-President, H. G. Norman; Second Vice-President, W. H. Campbell; Honorary Secretary-Treasurer, C. F. Elderkin. The following members of Council were elected for a two-year term: C. B. Brown, F. E. H.

PROVINCIAL NEWS

Gates, P. F. Seymour, Alfred Smibert and Jean Valiquette. These with the officers and the following Council members elected a year ago constitute the Council for 1939-40: C. W. Leach, C. J. C. Molson, R. W. Sharwood, G. S. Small and J. C. Thompson. Messrs. Ballantyne, Norman and Campbell were appointed representatives on the Council of The Dominion Association of Chartered Accountants to attend the annual meeting in Saskatoon in August.

Among the important matters dealt with in the report of the Secretary were the adoption by the Provincial Institutes of Chartered Accountants throughout Canada of uniform examinations to be put into operation in December 1939, the proposal of the institution of a Benevolent Fund of the Society (which was approved by the annual meeting), the publication of a library catalogue, and the compilation of a dictionary of French accounting terms based on the English edition prepared by the Terminology Committee of the Dominion Association.

An interesting feature of the annual meeting was the recognition of twenty-six years' service of Mr. Robert Wilson as Secretary-Treasurer of the Society. On his retirement from that office at this annual meeting, the members presented him with an oil painting, and Mr. A. F. C. Ross in formally making the presentation recalled the years of devotion to the work of the Society by Mr. Wilson. Mr. Ross spoke as follows:

Mr. President and Gentlemen: Now that the officers of our Society have been elected and installed for the ensuing year I would like to voice just a word of appreciation to those who today retired from office. The activities of our Society are growing larger and more complex as time goes on, demanding more and more of the attention and consideration of those who assume the administration of its affairs. We are fortunate in the past in having had some very able officers. To these I tender the sincere congratulations and thanks of the members at large.

I may perhaps be permitted, however, to make special mention of one of the retiring officers. Mr. Wilson, more familiarly known to most of us as Robert or Bob, has occupied the office of Secretary-Treasurer for quarter of a century. During that time the membership of the Society has grown from 63 mem-

bers to 588, and its activities have very materially developed and broadened. The usefulness of its members has increased and their services are now more than ever eagerly sought by the general public and by their own personal clients in particular. This in a great measure is due to efficient collective administration. But while a great many able administrators have unselfishly and successfully given unstintingly of their time and talents and served their day and generation, they have come and gone, while Mr. Wilson in his office as Secretary-Treasurer has been a continuing force, and it is only right and fitting therefore that we should recognize his services by presenting him, upon his retirement from the office he has so long held, with a testimonial indicative of the contribution which he himself personally has rendered in the upbuilding and development of the Society.

Mr. Wilson, I would ask you to accept this testimonial from the members of the Society which you have served so long and so well, as a mark of their appreciation, and may I add our sincere wishes for a long, happy and continued activity.

Mr. Wilson in reply said:

Mr. Chairman and Gentlemen: You will appreciate, I am sure, that on an occasion such as this I am filled with rather mixed emotions. One cannot sever a tie that has existed for more than a quarter of a century without a feeling of regret. At the same time, I must confess to a feeling of relief at the prospect of laying down a burden which I have carried for so many years. I have not found it a heavy burden; on the contrary I have taken a great deal of pleasure in carrying out the duties of the position and it has been a source of pride to watch the Society grow from a comparatively small organization to a body that now has a membership of 588. When I was admitted to the Society in 1908 there were only 40 members. Five years later when I was elected Secretary-Treasurer the membership had grown to 63. Five years after that the membership was still comparatively small, namely 74, but as these five years covered the War period no great increase could be expected, and it is during the past twenty years that the great growth in the membership has taken place.

It may interest you to hear something about the financial position of the Society in 1913. The receipts for that year totalled \$1,191.00 and the disbursements \$823.00, leaving a surplus of \$367.00. The assets consisted of cash in bank amounting to \$1,070, of which \$569 represented the balance at the credit of the Reserve account and \$500 the credit balance in the Revenue account. There was very little change during the next five years; in 1918 the income was \$1,348 and the expenditure \$935.00. The balance at the credit of the Reserve account

PERSONALS

was \$563.00 and the credit balance in the Revenue account was \$677.00, a total of \$1,240.00 and an increase of the Surplus of only \$170.00 in the five years. A comparison of these figures with those in the statements for this year will give you a picture of the growth that has taken place in the past twenty years.

I will always look back with pride on the part I have been privileged to play in building up the Society to its present prosperous position and that recollection alone is sufficient recompense for the time and energy I have given to the duties of the position I have occupied.

I thank you most sincerely, Mr. Chairman, for your kind remarks regarding myself and also for this beautiful picture which you have been so kind as to present to me as a memento of my many years' service; I will always treasure it as one of my most valued possessions.

Mr. Austin H. Carr, Secretary-Treasurer of the Dominion Association, was present at the meeting and spoke on some of the professional developments that had taken place during the year, and he issued an invitation to all the members to attend the annual meeting of the Association to be held in Saskatoon in August. Stressing the increasing importance of the profession, Mr. Carr referred to recent observations of Lord Stamp who pointed to the great extension of state and other methods of control which, with a very considerable range of planning devices, will make large demands upon the accountant as the arbiter of probity in our commercial and complicated financial relations.

During the afternoon the annual golf tournament of the members was held at the Mount Bruno Golf and Country Club. This was followed in the evening by a successful dinner and the presentation of golf prizes.

PERSONALS

Mr. Francis A. Griffiths, chartered accountant, has been taken into partnership by his father, Mr. William Griffiths, under the firm name of Griffiths and Griffiths, chartered accountants, with offices in the Standard Bank Building, Vancouver, B.C.

Hamish R. Macdonald and Hugh M. Healey, chartered accountants, announce the formation of a partnership for the practice of their profession under the name of Mac-

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donald and Healey, Chartered Accountants, with offices in the Bartlet Building, Windsor, Ontario.

Andrew D. Magee, chartered accountant, wishes to announce the opening of his office at 1302 Canada Permanent Building, Toronto, Ontario.

Spencer H. Over, of Providence, Rhode Island, who is a native of Ontario and who qualified for membership in the Institute of Chartered Accountants of Ontario in 1900, was elected President of the British Empire Club for the twenty-fifth time at the annual meeting of the Club at Providence on 24th May.

Messrs. Samson, Knight & Co., chartered accountants of Quebec City, announce the opening of an office in Val d'Or, P.Q., with Mr. E. H. Knight, C.A., as resident partner.

BOOK REVIEWS

C C H CANADIAN TAX SERVICE

(Published by *Commerce Clearing House, Inc.*, Loose Leaf Division, New York)

The Canadian Tax Service offers a complete cumulative summary of Canadian taxation, presenting firstly the whole or the relevant sections of imposing statutes with amendments, secondly comprehensive résumés and citations of legal cases, and thirdly editorial comments and explanations relating thereto.

The fields of taxation dealt with comprise income tax, corporation tax, succession duties, licenses, excise and sales taxes, utility taxes, and in fact all important taxes of the Dominion, the nine provinces, and the principal cities. If any important taxes have been omitted, this reviewer has yet to find them, and one is readily able to refer to matters relating to nature and form of returns, assessments, appeals, collections, refunds and other matters.

The service is presented in three volumes, the first of which relates to Dominion taxation and the other two to Provincial. Special sections are provided for new matters such as exchequer and other court decisions, and new regulations. The section on law includes late summaries of tax legislation and revised statutes verbatim; in the income tax section the publishers state that they have based their editorial comments and references on a comprehensive treatise on the *Income War Tax Act* written by Mr. J. R. Tolmie, barrister and solicitor of the Dominion Income Tax Department. The editorial comments are forcefully and concisely written and fully referenced to the statutes and legal citations.

A periodic news letter is provided which is comparable to economic or investment services which have proved so valuable to business men in other fields. Subscribers will be kept up to date by addenda supplied from time to time by the publishers, which may be inserted in the proper place in relation to the topical indices. As an example

BOOK REVIEWS

of the dispatch in this connection, an important decision, *Ramsey v. Provincial Treasurer of Alberta*, was handed down by the Appellate Division of the Alberta Supreme Court on April 11, 1939, and on May 15, 1939, a complete report was received on the desk of this reviewer, setting forth the facts and a verbatim judgment.

A few comments should be made as to the indexing mechanism. A complete topical index for each tax jurisdiction quickly references one either to the statutes or the editorial subject matter. Sub-topical supplementary tabs are also utilized for reference to such matters as specific cases. The volumes are presented in substantial loose leaf binders.

As an accountant one feels that the full value of the Canadian Tax Service can only be fully appreciated through habitual use. With this in mind, it can be readily recognized that so comprehensive a work cannot have been completely studied as to the accuracy of the detailed information by this reviewer in the short time at his disposal, but in his opinion, the work gives every indication of filling an important need to all those requiring complete and up-to-date information on the maze of taxation.

Edmonton, Alberta, 3rd June 1939.

F. G. WINSPEAR.

DEPRECIATION PRINCIPLES AND METHODS

By the National Association of Railroad and Utilities Commissioners

(Published by *The State Law Reporting Company*, 30 Vesey Street,
New York, 1938, paper, 86 pp., \$1.50)

The report entitled "Depreciation Principles and Methods," prepared by the Special Committee on Depreciation of the National Association of Railroad Commissioners, stresses the need for consistent treatment of depreciation, both for annual expense and accrued depreciation purposes. The volume contains a summary of ten principal points which may be considered as a depreciation program recommended for regulatory commissions.

After brief definitions of the terms used, the Committee proceeds to explain why depreciation should be deducted in determining a rate base and propounds various methods by which it may be calculated. The Report is divided into four chapters under the following headings:

- Accounting for Depreciation
- Depreciation in Rate Cases
- Results of Straight-Line and Sinking-Fund Methods
- Methods of Estimating Depreciation Rates.

In the first chapter, depreciation is defined as "the loss in service value of property." The Committee points out that depreciation is a cost of operation and utility consumers are obligated to provide for it in paying reasonable rates for service. The depreciation methods described more fully are the straight-line method and the sinking-fund method. Other methods of dealing with depreciation, including the remainder-life method and the retirement reserve method, are commented on briefly. The retirement reserve method, formerly used by many utilities to equalize the effects of property retirements, is being rapidly supplanted by depreciation accounting to provide for the loss in service value of plant. The authors state that among all classes of utilities that follow depreciation accounting, the straight-line method is most commonly used. It has the advantages of being simpler, easier to

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apply and more flexible. In determining a sound basis for accruing depreciation, original cost, rather than replacement cost, is advocated as being the most logical and effective basis for the periodic depreciation calculation. Where the plant can readily be divided into various classes, appropriate rates of depreciation for each class should be utilized, otherwise a composite rate should be taken. The writer endorses the Committee's opinion that the Reserve for Depreciation should be shown on the asset side of the Balance Sheet as a deduction from the depreciable property to show the net depreciated book value of the plant.

In the second chapter, the Committee reports that it is unfortunate that no definite rule concerning the handling of depreciation in rate cases has been issued by the United States Supreme Court because it would insure equity both to the utility and to the rate-paying public and simplify rate-making procedure tremendously. The necessity for consistent application of depreciation principles is strongly emphasized.

Chapter III consists of numerous tables and charts showing a comparison of the straight-line and sinking-fund methods.

Chapter IV describes the forecast, turnover and actuarial methods by means of various mortality tables and life curves. The data submitted in connection with these explanations, although possibly only of minor interest to the ordinary reader, would concern the qualified technician.

The report is written in a clear and concise manner. The reasoning is logical and equitable and should prove beneficial to the utility in formulating a plan to provide for the loss in service value of its capital investment in depreciable plant. Although dealing primarily with depreciation principles and methods relevant to utilities, the report is recommended to the reader who desires to increase his general knowledge on the subject of depreciation.

JOHN R. HOPPER.

Montreal,

6th June 1939.

PAPERS ON ACCOUNTING PRINCIPLES AND PROCEDURE

(Published by *The American Institute Publishing Company*, New York, 1939, paper, 262 pp., \$1.00)

The publication of the papers presented at the fifty-first annual meeting of the American Institute of Accountants has provided practising accountants with an unusually well-informed book of reference.

The institute was celebrating "The Second Fifty Years" of the profession and a very wide range of subjects was discussed, under ten separate headings, most of which are as vital to Canadians as they are to Americans.

The 55 papers given in this book represent the result of more experience than most accountants ever dreamed of having available for consultation. Each of the authors is a distinguished man in the American profession and is, presumably, writing on his specialty, so that we are provided with expert opinions on many points arising in our daily work.

Almost unanimously the authors "regret that time does not permit" a more detailed presentation of their views, but, accommodating themselves to the meeting, have compressed the papers to an average of about five pages. This feature makes the book more readable, and brings into relief the points which each author raised.

CORRESPONDENCE

A section devoted to "Accountants' Certificates" should prove specially interesting to our members after the similar discussion at the last annual convention in Halifax; despite the different forms used in the United States, the same general points are raised and considered.

J. LEM. CARTER.

Montreal,
17th June 1939

CORRESPONDENCE

The Editor,

Montreal, 8th June 1939.

The Canadian Chartered Accountant.

Dear Sir:

No doubt many of your readers are following with great interest those portions of testimony by expert witnesses at the S.E.C. hearing that are currently being published in the *Journal of Accountancy* (official organ of the American Institute of Accountants). The June 1939 issue of that Journal contains on pages 353 and 354 the following testimony (in part) that seems to be particularly interesting to the accounting profession as a whole and to the general public:

"Mr. Couchman's testimony on the disclosure of fraud was, in part, as follows:

"A. An examination in accordance with this bulletin frequently does disclose fraud, but does not necessarily do so.

"In other words, I think all accountants have had numerous cases where their procedure was somewhat like in this bulletin, which they have followed and have disclosed frauds. In fact, I don't recall any organization but what must have had many such experiences.

"I know we have, but as a rule there is no publicity attached to that and the public do not become so much aware of it as they do in cases where it chances that a fraud is not detected . . ."

"Mr. Klein, asked whether the auditor should be alert to detect fraud or other irregularities, replied:

"A. The answer is obviously yes. If fraud or irregularities exist, the auditor is obviously keenly anxious to make the detection.

"The fact is that the type of examination to which you refer frequently does detect fraud, error, and irregularities.

"I have no available statistics, nor do I know that they exist, but I venture the guess that throughout the year literally scores of thousands of errors, thousands of irregularities, and hundreds of frauds are detected by the very type of examination which disclaims such detection as either an objective or as the consequence of its procedure.

"Moreover, I am convinced that knowledge that auditors will detect errors and irregularities when they examine the accounts has acted as a deterrent on those who otherwise would practise fraud and deceit.

"May I add, gratuitously perhaps, that there is ample proof available even in the publicized cases that the existing procedure does detect fraud.

"The downfall of Krueger, one-time match king, resulted from a routine examination by American accountants who, in a sort of collateral matter, detected improper claims as to cash. The suspicion thus aroused may be said to have started the train of circumstances which led to Krueger's suicide and then to the disclosure of his gigantic frauds.

"While I hesitate about becoming personal, I believe I am justified in stating that the McKesson & Robbins auditors, Price, Waterhouse & Company, are the American auditors to whom I refer."

This well timed emphasis upon the highly valuable protective services performed unobtrusively by auditors in the normal daily practice of their profession should aid considerably to remove those dangerous misunderstandings that are apt to result from adverse publicity sometimes to be observed.

Mr. Klein's tribute to the valuable work leading to the downfall of a one-time match king and his empire is especially welcome not only because it illustrates well the fruitfulness of professional auditing work, but also because it serves the interests of fair play and tends to do justice in a quarter in which, as all professional accountants know, it is more than well deserved.

As it seems that the interests of all concerned can be benefited by the widest possible circulation of this important testimony, I venture to ask whether at your earliest opportunity you will find space to publish this in THE CANADIAN CHARTERED ACCOUNTANT. If it could be arranged that this testimony be published in the daily press the interests of the profession would be perhaps even further well served.

Yours very truly,

CECIL A. ELLIS.

STOCK BROKERS' ACCOUNTS Theory and Practice

This series of discussions on the subject of stock brokerage accounting theory and practice has been prepared by a group of members of the profession familiar with the subject. They desire to have it understood that the definitions, opinions and observations appearing in this column are their own and are not necessarily those of the Dominion Association.

(Continued from June issue)

Record of Securities on Hand, Etc.—"Unit" System

One of the most important departments in a brokerage organization, and one the functions of which are somewhat dissimilar to those encountered in other types of business, is the department responsible for the physical handling of the securities, commonly referred to as the "Cage." When one considers the value of the securities handled it is obvious that the records maintained in the cage, accounting for the receipt and delivery of securities, stocks

STOCK BROKERS' ACCOUNTS

on hand and out for transfer, etc., are of prime importance in the conduct of a brokerage business.

The following are some of the essential records required to be kept in the cage:

1. Record of all receipts and deliveries of securities,
2. Record of securities held by the firm both for customer's ordinary and safekeeping account,
3. Record of securities sent out for transfer and not yet returned,
4. Record of securities pledged as collateral to loans.

As regards the record of receipts and deliveries it is necessary either that the original record show full details as to certificate number and registered name, or that a separate record showing such details be maintained. When the latter course is adopted the record is usually referred to as the "Certificate Register."

It should also be pointed out that the record of receipts and deliveries must be in such a form as to be available for use as a posting medium by the regular accounting department.

Various methods have been designed for maintaining the necessary cage records but the system herein described, known as the "Unit System," is thought to combine all the above essentials in a simple yet highly efficient form. The unit itself consists of a pre-numbered multiple form usually about 8½" x 4½" in size. Two sets are required, one to record receipts and the other deliveries of securities. The number of copies required will depend to some extent on the system employed in the other departments of the business. Usually the original of the "received" unit is used as the firm's receipt for the security received while the original of the "delivered" unit represents the receipt obtained for securities delivered and should be retained in numerical order. One copy of each unit will be used by the ledger department as a posting medium, one for the margin department, and one, the "Security Record" copy for the purpose of the cage records. Further copies can, of course, be obtained depending on the needs of the particular organization.

Every security received in the cage is entered on a "received" unit, not more than one type of security being entered on each unit. The unit is filled out as to the date and source of the receipt and also full details of each cer-

tificate showing number of shares, certificate number and registered name. The "security record" copies of the "received" units form the cage record of securities on hand and are placed in a file sorted alphabetically by securities until such time as the certificates covered by each unit have been delivered. All deliveries will of course be entered similarly on "delivered" units. The "security record" copy of the "delivered" unit should then be matched against the "received" unit covering the same certificates and a rubber date stamp placed in the space provided opposite the certificates which have been disposed of. The delivered unit and the received unit, when all certificates covered thereby have been cleared, are then placed in a transfer file and form a permanent record of all securities passing through the office.

When securities are sent to transfer agents the delivery unit is prepared as before but since the security is still under the control of the cage the "security record" copy of the unit instead of being placed in the transfer file is retained in the cage in an alphabetical file representing securities out for transfer. When the security is later received back a "received" unit will be prepared and the "delivered" unit transferred. When a security is delivered to the transfer agent for exchange the number of shares and name of the security to be received should be shown as a footnote on the unit. When the new security is received the "received" unit will be prepared in the usual way and an additional "received" and "delivered" unit prepared showing the new security received from the client and the old security delivered out.

When securities are delivered to the bank or banks as collateral to loans the same procedure applies. That is the cage maintains a record of the securities so held by each bank in the form of delivered units. These units show full details of the securities held by the bank and obviate the necessity of maintaining a separate record to show the denominations of the certificates available.

Securities transferred to the safekeeping box are similarly controlled and if required a record may also be maintained of securities on hand in branch offices or in the hands of agents, etc.

Thus through a single typing of the details of the securities received and delivered by the cage all the essential

TERMINOLOGY DEPARTMENT

records are made available. The ledger copies of the units form an ideal posting medium for the various ledgers affected and can also be used for the purpose of writing up the stock position register. Through the sorting of the "security record" copy the cage is able to maintain a perpetual inventory of all securities on hand or under its control, and a perpetual record replacing the usual form of certificate register is also made available.

TERMINOLOGY DEPARTMENT

The articles in this Department, unless otherwise stated, are originally written by the Chairman of the Terminology Committee and submitted to the members thereof; they are afterwards revised by him after consideration of suggestions made by the members.

If it should be thought that any articles include too much primary or elementary matter, readers are asked to realize that the Committee hopes these articles will be of especial value to Students-in-Accounts; and it is believed that, to impart a thorough understanding, too much emphasis cannot be placed on the fundamental principles on which the ideas connoted in the term defined are based.

(Continued from June issue)

Proxy: A person authorized to act for another; e.g., at a shareholders' meeting; the signed instrument conferring such authority.

Public Company: Section 3 (k) of *The Companies Act* (Dominion) states that a "public company means a company which is not a private company." See "Private Company." Thus, all companies whose letters patent or supplementary letters patent do not contain the restrictions which govern private companies are deemed to be public companies, and are subject to the full requirements of the Act.

There is among some people a tendency to the loose use of the term to describe a company the shares of which are held by the public, as distinct from a company which may be, by law, a public company, but the shares of which are held privately.

Purchases: Things bought; in accounting, however, the term is usually limited in a particular business to mean those things dealt with in the way of trade or used in manufacturing.

Q

Qualification: "Modification, recognition of contingency, restricting or limiting circumstance, detraction from completeness or absoluteness." (Concise Oxford Dictionary).

The term is used by auditors to refer to a phrase in a report on the balance sheet or other financial statements which limits or modifies the general opinion otherwise expressed.

Quick Assets: Cash on hand and in bank, and those which are convertible to cash within a relatively short period, e.g., marketable securities, accounts and bills receivable. Stock in trade is not considered a quick asset.

R

Rate of Exchange: The price, in the money of one country, of the money of another country.

Rating: The estimated relative worth or value of a business or its securities; determined by mercantile agencies in reporting on its financial standing to indicate its relative size and credit reputation.

Raw Material: Material purchased by a manufacturing company to form part of its own finished products. One manufacturer's finished product may be the raw material of another; e.g., a miller's raw material is wheat and his finished product flour; flour in turn becomes the baker's raw material.

Real Accounts: In American practice, all assets and liabilities, i.e., everything which is shown on the balance sheet except surplus in any form; as distinct from nominal accounts which are closed out into profit and loss or surplus.

British practice recognizes as Real Accounts only those which have to do with property or possessions, e.g., land, buildings, stock in trade, cash, goodwill, etc., and excludes personal accounts.

Real Estate: Property in land and improvements thereon, including buildings, standing timber, orchard trees, etc.

Realization Account: One kept in the winding up of an estate or business to show the amounts realized on the sale of the assets.

Realized Profits: Profits which have been received in cash or converted into some other tangible asset.

Rebate: An allowance or deduction; a refund.

Recapitalization: A change in the character or amount of a company's capital, sometimes including the absorption in capital of accumulated profits or losses.

Receipt: The act of receiving money or merchandise; the amount of money so received; the written and signed acknowledgment of the receipt of money or merchandise.

Receiver: A person appointed by a court to administer

TERMINOLOGY DEPARTMENT

the estate of a bankrupt or the property of a company in litigation; hence, Receivership.

Recognizance: An acknowledgment of an obligation due to the Crown, e.g., to pay a debt, or keep the peace, or appear in court.

Reconciliation Statement: One drawn to bring to an agreement accounts where there are outstanding items, e.g., a bank account.

Redemption Fund: A name sometimes given to a sinking fund established for the retirement of a debt or the redemption of capital.

Reduction of Capital: *The Companies Act (Dominion)* and those of the various provinces set out provisions regarding companies which for any reason desire to reduce their capital, and the Act under which a company is formed should be consulted. In general, the consent of each class of shareholders is required, and also that of creditors, although proof that all debts owing at the time of application for Supplementary Letters Patent have subsequently been paid is sometimes accepted.

Refund. 1. To pay back or give credit—usually for an over collection.

2. The amount so paid back or credited.

3. To provide for payment of an existing loan by an arrangement for a new loan.

Refunding Bonds: A new issue of bonds to provide for payment of old bonds maturing, whether by sale of the new bonds or exchanging them for the old ones.

Register: In general, any book in which entries are made of details to be recorded for reference (*Concise Oxford Dictionary*); thus, the word is applied to those books and records required under the *Companies Acts*, e.g., registers of shareholders, transfers, etc. See Section 103 of *The Companies Act (Dominion)*.

Registrar: One who keeps a register. There are a number of registrars in public service; the title is given in business to the officer of a company who has charge of the registers of shareholders and transfers. In large public corporations the present tendency is to appoint a trust company as registrar.

Related Company: One within the same group, such as a holding company and any of its subsidiaries, or one of the subsidiaries as connected with another.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

In May of last year we commented on the "last-in, first-out" inventory method and quoted from the report of a smelting and refining company which employed it in the preparation of its annual statements. Since then an amendment to the Revenue Act of the United States has expressly sanctioned this method of costing sales and valuing inventories in certain specified types of industries, viz. smelting and refining of non-ferrous metals, certain branches of the brass and copper products industries, and tanning. Now The Controllers Institute of America is urging upon the Treasury, by a brief¹ prepared under the chairmanship of the controller of American Smelting and Refining Company, extension of the sanction beyond the specified industries to any case in which the method "conforms . . . to the best accounting practice in the trade or business and is regularly employed in keeping the books or records of the taxpayer." This would include the petroleum and lead processing and fabricating industries (in which the last-in, first-out method is extensively used) and also probably certain branches of the textile, electrical and paper industries.

The method undoubtedly reduces the volume of the fluctuations in the reported net profits of concerns in those industries whose processing period is lengthy (60, 90 or 120 days or more in the non-ferrous smelting and refining industry, 60 days to 6 months in the tanning industry, and so on). There is still some dispute as to whether the income so reported is in any sense the "true" income. Sanders, Hatfield and Moore say:² "In these cases such valuation methods as base-stock or last-in, first-out are intrinsically proper, as well as being proper from a business point of view." Professor W. A. Paton on the other hand says:³ "The peculiar merit of this scheme, it is contended, is the resulting stabilization of net profit—the minimizing of the

¹See *The Controller* Vol. VII No. 5, p. 160 (May, 1939) where the brief is reproduced.

²A *Statement of Accounting Principles*, (American Institute of Accountants), 1938 p. 74.

³*Essentials of Accounting* (Macmillan) 1938, p. 484.

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effect of price movements in the periodic reports. . . . This statement of the so-called advantage of the method reveals its essential weakness: it tends to bring about, artificially, an appearance of stability in a fluctuating business. This is the very antithesis of sound accounting."

We decline to be drawn into this particular controversy but we have two thoughts on the matter of the basic or last-in, first-out method of inventory valuation. One is that the method by eliminating the contraction of dividend payments and tax collections in times of depression may remove a factor which possibly tends to aggravate depression; the other is that the method can only properly be employed in those industries in which the inventory is financed by long-term capital and not by earnings or by short-term borrowing.

* * *

The brief mentioned above reproduced the interesting results of a questionnaire sent out by the National Industrial Conference Board as to the accounting bases for charging raw materials into process. The summary showed that (of rather more than 900 cases) 39% employed average cost, 15% first-in, first-out cost, 24% the actual cost of specific lots, 16% standard cost, and 3% each of last-in, first-out cost and "some other basis." The bulletin in which these results were published does not indicate whether inventories were valued on the same basis and therefore no conclusions can be drawn in this connection. The figures are, however, striking evidence of the diversity of concepts of cost of production and the error of thinking of that cost as something absolute.

* * *

STUDENT ASSOCIATION NOTES

ONTARIO—Toronto

A committee has been formed to plan the regular meetings for the Fall and will give special consideration to the form that these meetings will take. There are several possibilities, including the continuation of the late afternoon discussion groups, the holding of dinner meetings with a speaker from outside the profession, or evening lectures. The committee is anxious to learn which form the members prefer and will welcome opinions and views on the subject from students. The discussion groups which were held in

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the Spring were successful but there may be those who would prefer meetings of a somewhat different nature or at a different time.

Baseball will soon give way to tennis, and although a definite date has not yet been set for the start of the tennis tournament there may still be time to make your entry when this appears in print—and to win the very fine large cup which is presented annually.

PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by a practising chartered accountant of the Institute from whose examinations the problem is taken and represent his views and opinions. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF
MANITOBA**

INTERMEDIATE EXAMINATIONS, MAY 1938.

Bookkeeping and Accounts, Section III. Question No. 5

The financial position of Mr. A. B. Connors who keeps a Single Entry set of books, is as follows, for the fiscal years ending 31st December, 1936 and 1937:

Assets	31st December	
	1936	1937
Cash	\$ 1,000.00	\$ 4,850.00
Accounts Receivable	6,000.00	7,500.00
Merchandise	5,400.00	6,500.00
Land	2,000.00	2,000.00
Buildings	12,500.00	11,750.00
Furniture and Fixtures	2,500.00	3,000.00
	<hr/> <u>\$29,400.00</u>	<hr/> <u>\$35,600.00</u>
Liabilities		
Accounts Payable	\$ 3,800.00	\$ 4,700.00
Mortgage on Land and Buildings	5,000.00	4,000.00
A. B. Connors—net worth	20,600.00	26,900.00
	<hr/> <u>\$29,400.00</u>	<hr/> <u>\$35,600.00</u>

An analysis of the foregoing accounts reveals the following:

(a) Accounts Receivable amounting to \$1,400.00 which were outstanding as at 31st December, 1936, were written off during 1937. All outstanding accounts as at 31st December, 1937, are deemed to be good.

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(b) The accounts payable as at each year end were all for purchases of merchandise received. In addition to the accounts payable as shown on the books, the following accruals were not set up,

	31st December 1936	1937
Auto Expense	\$ 30.00	
General Expense	90.00	
Insurance and Taxes	180.00	225.00
Mortgage Interest	175.00	140.00
An analysis of the Cash Receipts and Disbursements reveals the following:		
Cash on hand, 31st December, 1936	\$ 1,000.00	
Add Cash Sales	\$ 5,000.00	
Cash received on accounts receivable	45,000.00	50,000.00
		\$51,000.00

Disbursements—

Accounts Payable, merchandise purchases..	\$35,000.00
Salaries	4,000.00
General Expense	900.00
Auto Expense	400.00
Insurance and Taxes	200.00
Drawings—A. B. Connors	3,500.00
Mortgage Interest	350.00
Mortgage Principal	1,000.00
Furniture and Fixtures (New)	800.00
	46,150.00
	\$ 4,850.00

The fixed assets were valued at the end of each year after taking into consideration any additions thereto.

From the foregoing you are required to prepare a detailed Profit and Loss Statement for the year ended 31st December, 1937.

SOLUTION

A. B. CONNORS, ESQ.

**Profit and Loss Statement
for the year ended 31st December, 1937.**

Sales	\$52,900.00
Deduct:	
Cost of Goods Sold:	
Merchandise on hand, 31st December, 1936	\$ 5,400.00
Merchandise Purchases	35,900.00
	41,300.00
Less Merchandise on hand, 31st December, 1937	6,500.00
	34,800.00
Gross Profit	18,100.00

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Deduct:		
Operating Expenses:		
Salaries	4,000.00	
Bad Debts	1,400.00	
Depreciation:		
Buildings	\$750.00	
Furniture and Fixtures	300.00	1,050.00
General Expense	870.00	
Auto Expense	430.00	
Insurance and Taxes	245.00	<u>7,995.00</u>
Profit on Operations		10,105.00
Deduct:		
Financial Expense:		
Mortgage Interest		315.00
Net Profit for the year 1937		<u>\$ 9,790.00</u>

It would appear from the requirement set forth in the question that the foregoing statement would constitute a complete solution. In order to ensure accuracy, however, it is probable that most examination candidates would prepare, at least in rough form, schedules similar to those which follow.

**Schedule showing calculation of Sales
for the year ended 31st December, 1937.**

Credit Sales:		
Cash received during 1937 on Accounts Receivable		\$45,000.00
Add Accounts Receivable, 31st December, 1937		7,500.00
		<u>52,500.00</u>
Deduct:		
Accounts Receivable, 31st December, 1936	\$6,000.00	
Less Accounts written off during 1937	1,400.00	
		<u>4,600.00</u>
Cash Sales		47,900.00
		<u>5,000.00</u>
Sales for 1937		<u>\$52,900.00</u>

**Schedule showing calculation of Merchandise Purchases
for the year ended 31st December, 1937.**

Cash paid during 1937 on Accounts Payable for Merchandise Purchases	\$35,000.00
Add Accounts Payable, 31st December, 1937	4,700.00
	<u>39,700.00</u>
Less Accounts Payable, 31st December, 1936	3,800.00
Merchandise Purchases for 1937	<u>\$35,900.00</u>

STUDENTS' DEPARTMENT

**Schedule showing calculation of certain Expenses
for the year ended 31st December, 1937.**

	General Expense	Auto Expense	Insurance and Taxes	Mortgage Interest
Cash paid during 1937	\$900.00	\$400.00	\$200.00	\$350.00
Add Accruals, 31st Decem- ber, 1937	90.00	30.00	225.00	140.00
	<u>990.00</u>	<u>430.00</u>	<u>425.00</u>	<u>490.00</u>
Less Accruals, 31st Decem- ber, 1936	120.00	180.00	175.00
Expense for 1937	<u>\$870.00</u>	<u>\$430.00</u>	<u>\$245.00</u>	<u>\$315.00</u>

**Schedule showing calculation of Depreciation
for the year ended 31st December, 1937.**

	Buildings	Furniture and Fixtures
Asset values per financial statements, 31st De- cember, 1936	\$12,500.00	\$2,500.00
Add Additions during 1937		800.00
	<u>12,500.00</u>	<u>3,300.00</u>
Less Asset values per financial statements, 31st December, 1937	11,750.00	3,000.00
Depreciation for 1937	<u>\$ 750.00</u>	<u>\$ 300.00</u>

**Proof of amount of profit shown by Profit and Loss Statement
for the year ended 31st December, 1937.**

Net Worth per financial statements, 31st December, 1937	\$26,900.00
Less Accruals not set up in books, 31st De- cember, 1937	485.00
Adjusted Net Worth, 31st December, 1937 . . .	<u>26,415.00</u>
Deduct:	
Net Worth per financial statements, 31st De- cember, 1936	\$20,600.00
Less Accruals not set up in books, 31st De- cember, 1936	<u>475.00</u>
Adjusted Net Worth, 31st December, 1936 . . .	<u>20,125.00</u>
Increase in Net Worth	<u>6,290.00</u>
Add Drawings during 1937	<u>3,500.00</u>
Profit for 1937 per Profit and Loss Statement	<u>\$ 9,790.00</u>

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PROBLEM II.

**THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF MANITOBA**

FINAL EXAMINATIONS, MAY, 1938.

ADVANCED ACCOUNTING, — SECTION I. QUESTION No. 5.

A. B. and C. are partners in a business and share in its profits at the respective rates of 50, 30 and 20%. The following is a Trial Balance of the books of the partnership at 31st December, 1937:

Cash	\$ 30,094.50
Accounts Receivable	90,000.00
Stock in Trade	70,000.00
Unexpired Insurance	405.50
Furniture and Fixtures—	
Less depreciation written off	20,000.00
Accounts Payable	
Capital—A	\$ 50,500.00
B	85,000.00
C	50,000.00
	25,000.00
	<hr/>
	\$210,500.00
	<hr/>
	\$210,500.00

Early in the morning of 1st January, 1938, a fire occurred at the store operated by the partnership. Furniture and fixtures having a depreciated book value of \$15,000.00 were completely destroyed, and the merchandise loss amounted to \$42,000.00.

The following is a summary of the report made by the appraisers appointed by the Insurance Companies:

	Sound values at time of fire		Goods destroyed No salvage
	Total		
Furniture and Fixtures	\$ 21,000.00		\$ 16,000.00
Merchandise Stocks	70,000.00		42,000.00

Insurance in force at 1st January, 1938, was as follows:

Furniture and Fixtures		Co-insurance	
	Amount	Premium	Clause
X Company	\$ 9,000.00	\$90.00	90%
Y Company	9,000.00	81.00	80%
<hr/>			
Stock in Trade	\$18,000.00		
Y Company	\$40,000.00	\$400.00	90%
Z Company	20,000.00	240.00	None
	<hr/>		
	\$60,000.00		

All of the above policies were written for the term of one year, expiring 1st July, 1938.

A reserve of \$5,000.00 is required to take care of the probable losses in the collection of the Accounts Receivable.

It is agreed to admit D. as a partner on 2nd January, 1938. On this day he invested sufficient cash in the firm to give him a one-third interest in the net worth, and he is to have a one-third interest in the profits. A. B. and C. are to share the remaining two-thirds of the profits in their old ratios, and they agree to adjust their capital balances among themselves, so that their capital accounts are in agreement with their interests in the profits.

You are required to prepare a Balance Sheet of the new partnership, as at 2nd January, 1938.

STUDENTS' DEPARTMENT

SOLUTION

A, B AND C

STATEMENT OF AMOUNTS COLLECTABLE ON INSURANCE POLICIES

Company	Co-Insurance Clause	Insurance Required	Carried	Fraction	Loss	Amount Collectable
Furniture and Fixtures						
X	90%	\$ 18,900.00	\$ 9,000.00	90/189	\$16,000.00	\$ 7,619.05
Y	80%	16,800.00	9,000.00	90/180	16,000.00	8,000.00
					\$18,000.00	
						\$15,619.05
Stock in Trade						
Y	90% None	\$ 63,000.00	\$40,000.00	40/63	\$42,000.00	\$26,666.67
Z	20,000.00	20/60	42,000.00	14,000.00
					\$60,000.00	
						\$40,666.67

STATEMENT OF UNEXPIRED INSURANCE AFTER FIRE

Company	Original Amount	Deduct Fire Loss	Balance In Force	Annual Rate Per \$100.00	Half Year Unexpired
Furniture and Fixtures					
X	\$ 9,000.00	\$ 7,619.05	\$ 1,380.95	\$ 1.00	\$ 6.90
Y	9,000.00	8,000.00	1,000.00	.90	4.50
Stock in Trade					
Y	\$ 40,000.00	\$26,666.67	\$13,333.33	\$ 1.00	\$ 66.67
Z	20,000.00	14,000.00	6,000.00	1.20	36.00
					\$ 114.07

FIRE LOSS ACCOUNT

Book Value of Assets Destroyed	Debit	Credit	Balance
Furniture and Fixtures	\$15,000.00		
Stock in Trade	42,000.00		\$57,000.00
Unexpired Insurance at 1st January 1938	405.50		57,405.50
Insurance Claims			
Furniture and Fixtures		\$15,619.05	
Stock in Trade		40,666.67	
Unexpired Insurance after fire		114.07	1,005.71 Dr.

STATEMENT OF PARTNERS' CAPITAL ACCOUNTS

	Total	A	B	C	D
Balances at 31st December 1937	\$160,000.00	\$85,000.00	\$50,000.00	\$25,000.00	
Deduct Fire Loss	\$ 1,005.71	\$ 502.86	\$ 301.71	\$ 201.14	
Provision for Doubtful Accounts	5,000.00	2,500.00	1,500.00	1,000.00	
	\$ 6,005.71	\$ 3,002.86	\$ 1,801.71	\$ 1,201.14	
Balances down	\$153,994.29	\$81,997.14	\$48,198.29	\$23,798.86	
Adjustments among partners to bring their capital accounts in agreement with their interest in the profits					
C pays A		5,000.00		5,000.00	
C pays B			2,000.00	2,000.00	
Balances at 2nd January 1938 before admission of D as partner	\$153,994.29	\$76,997.14	\$46,198.29	\$30,798.86	
Cash paid by D for one-third interest ..	\$ 76,997.14				\$76,997.14
Balances at 2nd January 1938 after ad- mission of D. as partner	\$230,991.43	\$76,997.14	\$46,198.29	\$30,798.86	\$76,997.14

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A, B, C AND D
BALANCE SHEET AT 2nd JANUARY 1938

ASSETS

CURRENT ASSETS

Cash	\$107,091.64
Accounts Receivable	\$90,000.00
Less Reserve for Doubtful Accounts	<u>5,000.00</u>
	85,000.00
Insurance Claims	56,285.72
Stock in Trade	28,000.00
Unexpired Insurance	<u>114.07</u>
Total Current Assets	276,491.43

FIXED ASSETS

Furniture and Fixtures—Less Depreciation written off	5,000.00
	<u>\$281,491.43</u>

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

Accounts Payable	\$ 50,500.00
Total Liabilities	50,500.00

CAPITAL

A	\$76,997.14
B	46,198.29
C	30,798.86
D	<u>76,997.14</u>
	230,991.43
	<u>\$281,491.43</u>

